SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

BART

2008 Annual Report

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SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

In FY 2008 green became the new BART blue.

I had the good fortune to be selected by the BART Board of Directors to serve as the District's eighth General Manager at one of the most exciting and auspicious times for public transit. Public awareness of the urgency of the fight against climate change was at an all time high. And awareness of the role transit can play in winning that fight was growing. Soon after my appointment, California Governor Arnold Schwarzenneger marked BART's 35th year of service by affirming our effectiveness in preventing air pollution and reducing greenhouse gas emissions.

Part of our green strategy included providing quality service to encourage people to get out of their cars and onto BART. Our exceptional service included achieving a 94 percent customer on-time performance record and a cleaner fleet. We hired more car cleaners, replaced worn carpet with composite floors in 200 cars and replaced old seats in nearly 300 cars.

Our efforts paid off. Ridership increased 5.7 percent over the previous fiscal year despite a major fire at our Hayward train yard and subsequent restoration work that affected service to Fremont for eight weeks. In FY 2008 our average daily ridership hit 358,000 passengers, preventing nearly 45,000 pounds of harmful pollution and more than four million pounds of greenhouse gases from spewing into the air each day.

Our environmental toolbox also included customer service and system maintenance strategies. We installed 198 electronic bike lockers at nine East Bay stations, making it easier for customers to bike to BART, rather than drive. We also replaced worn wooden railroad ties with ties made of recycled plastic grocery bags, old tires and discarded milk cartons.

FY 2008 initiatives were made possible by the financial resources remaining from FY 2007. As FY 2008 came to a close, the ability to retain what we achieved was challenged by the national economic downturn and the subsequent effect the recession had on our financial resources. Our customers get it and are making smart choices every day that are part of a winning solution. Although necessary cutbacks will delay some of our plans, BART is committed to finding solutions that maintain the service our customers have come to expect while continuing to sustain the environment.

The times ahead will be challenging. However, I have every confidence the dedicated people of BART will rise to the occasion to meet whatever obstacles we face and I am privileged and honored to lead this truly talented team.

Dorothy W. Dugger
BART General Manager

FY 2008 HIGHLIGHTS

In August 2007 BART implemented a low-cost airport parking program for the Peninsula, which allows air travelers to park in selected BART lots near San Francisco International Airport (SFO) for just $6.00/day. Ten months later, on the fifth anniversary that the BART extension to SFO opened, the SFO Station marked a major milestone when ridership at this station reached an average of 10,700 passengers per weekday, an increase of 65% since it first opened in June 2003.

The BART Board elected Board Member and former Walnut Creek Mayor Gail Murray to Board President. President Murray was the third woman in a row—following Board Members Carole Ward Allen and Lynette Sweet—to serve at the Board's helm. Her goals included environmental sustainability, financial stability, improving access and fusing partnerships to create seamless transportation in the Bay Area.

To complete BART's executive team, in January the BART Board of Directors selected Matthew Burrows as the District's General Counsel and I appointed Marcia deVaughn as Deputy General Manager.

BART garnered over $1.5 million in donations from private sponsors for Rider Appreciation events. Both Kaiser Permanente and Nestle Nesquik sponsored "Kid's Ride Free" days and Tully's provided $1 million dollars worth of coffee to thank BART customers for doing their part to protect the environment.

TRANSPORTATION ORIENTED DEVELOPMENTS

BART actively pursues opportunities to build Transportation Oriented Developments (TOD) where passengers will be able to live, work, shop, eat and play near BART stations. TOD benefits the community, the economy and the environment. FY 2008 TOD milestones include:

- Breaking ground to transform the Union City Station into a solar-powered, multi-model world-class transit village where passengers will be able to experience the all amenities of TOD living and connect to busses, BART and Capitol Corridor trains.
- Unveiling the parking structure at the Dublin/Pleasanton Station, the cornerstone of the TOD that was made possible by an award-winning partnership between BART, the Alameda County Surplus Property Authority and AvalonBay Communities.
- Continuing construction of the highly anticipated new station in West Dublin/Pleasanton that will close the 10-mile gap between the Castro Valley and Dublin/Pleasanton stations. BART projects that it will open in 2010.

NEW RIDERSHIP RECORDS SET

Environmental awareness, enhanced service and skyrocketing gas prices were some of the factors that made FY 2008 a year of record ridership. Gay pride, baseball games and the annual Pacific Coast Builders conference combined to make June 23 through the 29 the highest ridership week in BART history with 2,317,811 riders. The single-day record was smashed on June 19 when 394,370 customers rode BART on the single Spare the Air/Free Transit day of the summer.

EARTHQUAKE SAFETY

BART is in a race against time to retrofit its infrastructure to withstand major temblors and is well underway in delivering its 10-year, $1.3 billion project. In March, Governor Schwarzenegger allocated $24 million in voter-approved Proposition 1B funding to strengthen the Transbay Tube. This allocation supplements the $980 million Measure AA BART Earthquake Safety Bond voters supported in 2004.

SYSTEM SECURITY

Because of the critical role BART plays in Bay Area mobility, BART has the unfortunate distinction of being one of the top 10 terrorist targets in California. BART's overall capital security program needs are expected to cost more than $250 million. This fiscal year Governor Schwarzenegger's Office of Homeland Security allocated $5.4 million to BART, which BART will use to help the process of making all our cameras state-of-the-art.

In FY 2008 crime against passengers on BART went down 28% when compared with FY 2007 crimes against passengers' statistics.

FINANCIAL RESPONSIBILITY

BART continued to ride on the fiscal coattails of the FY 2007 budget. In addition, the second in a series of four CPI-based fare adjustments was implemented on January 1, 2008.

BART used resources to make our life-long dream of 15-minute headways in nearly all parts of the day a reality. We increased service 33 percent by implementing several strategies including:

- Running more trains, more often in the evening and all day Sundays
- Doubling the number of trains to stations on the SFO/Millbrae extension
- Achieving faster commute times and direct service from Millbrae to downtown San Francisco
- Starting the Richmond and Pittsburgh/Bay Point lines earlier

SYSTEM EXPANSION

Several BART extension projects, which will expand the 104-mile system, moved forward during FY 2008:

- **Warm Springs Extension.** This project will extend BART's existing Fremont line 5.4 miles south to a station in Fremont's Warm Springs district. BART solidified funding for the project, purchasing 3.5 miles of former railroad right of way from Santa Clara Valley Transportation Authority and developed designs to protect or relocate existing City facilities. In addition, the City of Fremont constructed foundations, abutments and a center pier for the BART Paseo Padre Parkway Overpass structure as part of its Washington Blvd./Paseo Padre Parkway Grade Separation project, which facilitates the Warm Springs extension by creating a separate corridor for BART.
- **eBART.** In 2007, the eBART Partnership Policy Advisory Committee (ePPAC) identified a new Phase I Proposed Project, which consists of Diesel Multiple Unit technology running from a transfer station located just east of the Pittsburg/Bay Point platform and extending down the median of State Route 4. Full funding for this phase has been secured. Future phases of eBART could extend beyond Antioch to Oakley, Brentwood and Byron/Discovery Bay.

CAPITOL CORRIDOR

BART entered its fourth year of its five-year contract as the managing agency for the Capitol Corridor rail service, the intercity passenger rail system that services the corridor between Auburn and San Jose. BART and Capital Corridor Joint Powers Authority (CCJPA) officials cut the ribbon to open a stylish, new transit center at the Richmond Station in October 2007. The center serves both transit systems and houses a joint Richmond and BART Police substation. In FY 2008, CCJPA smashed several ridership and revenue thresholds: ridership increased 16.8% and farebox revenue improved to 46.9%, again proving that the Capitol Corridor intercity rail is a viable travel option.

SETTING THE TREND

BART continued its tradition as being a trendsetting transit agency by implementing cutting-edge technology for its customers.

Technological advances introduced in FY 2008 included:

- **Implementing the Near Field Communications (NFC) pilot program.** This pilot program allowed a select group of customers to use their NFC enabled mobile phones to pay for food at Jack in the Box restaurants and BART fares. Currently, NFC enabled phones are not publicly available in the U.S; however the pilot program demonstrated that a single chip has the capability to pay multiple accounts, which brings America closer to mobile commerce.
- **Library a-Go-Go.** In April, BART partnered with the County of Contra Costa to unveil an ATM-style device that dispenses books instead of money. BART was the first entity in the county to offer this unique library service.
- **Offering real time service information.** Any business with a monitor and a computer can display BART service by downloading BART's free instructions and software from www.BART.gov/display. In addition, customers can now get a text message or an email alerting them to train delays or other information by signing up at www.BART.gov/updates. These are just some of the services offered on our updated website that we launched this fiscal year.

LOOKING FORWARD

By the end of FY 2008, the State of California was spiraling into a financial crisis. The cutbacks to mass transit that the Governor proposed were severe. This wasn't the first time state funding for public transit has been siphoned away to balance the State budget. Since 2000, BART has lost a total of $111 million, an equivalent of 37 new rail cars. Thirty-seven cars could help us carry another 20,350 passengers per day. The FY 2009 budget reflects the cost of operating an aging system at unprecedented service levels at a time of uncertainty regarding the economy. The challenge for the District is to carefully prioritize funding 'to keep up' with ridership growth, capital needs and service requirements, while ensuring that FY 2009 investments help to create a more efficient and sustainable system.

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

To the Board of Directors of the San Francisco
Bay Area Rapid Transit District
Oakland, California

We have audited the accompanying financial statements of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the San Francisco Bay Area Rapid Transit District (the District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the District, as of June 30, 2008 and 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, effective July 1, 2007.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the District's internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information

Macias Gini & O'Connell LLP

Certified Public Accountants

Walnut Creek, California

November 21, 2008

INTRODUCTION

The following discussion and analysis of the financial performance and activity of the San Francisco Bay Area Rapid Transit District (the "District") provide an introduction and understanding of the basic financial statements of the District for the years ended June 30, 2008 and 2007. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The District is an independent agency created in 1957 by the legislature of the State of California for the purpose of providing an adequate, modern, interurban mass rapid transit system in the various portions of the metropolitan area surrounding the San Francisco Bay. The District started its revenue operations in September 1972. It presently owns a 104-mile, 43-station system serving the four counties of Alameda, Contra Costa, San Francisco and San Mateo. The government of the District is vested in a Board of Directors composed of nine members, each representing an election district within the District.

THE FINANCIAL STATEMENTS

The basic financial statements provide information about the District's Enterprise Fund and the Retiree Health Benefit Trust. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

OVERVIEW OF THE ENTERPRISE FUND FINANCIAL STATEMENTS

The Statement of Net Assets reports assets, liabilities and the difference as net assets. The entire equity section is combined to report total *net assets* and is displayed in three components - *invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets*.

The net asset component *invested in capital assets, net of related debt*, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net assets consist of assets where constraints on their use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. This net assets component includes net assets that have been designated by management for specific purposes, which in the case of the District include allocations to fund capital projects, and other liabilities, which indicate that management does not consider them to be available for general operations.

The Statement of Revenues, Expenses and Changes in Net Assets consists of operating and nonoperating revenues and expenses based upon definitions provided by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments: Omnibus*. Accordingly, significant recurring sources of the District's revenues, such as capital contributions, are reported separately, after nonoperating revenues and expenses.

Statement of Cash Flows is presented using the direct method and includes a reconciliation of operating loss to net cash used in operating activities.

Financial Highlights

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A summary of the District's *Statements of Revenues, Expenses and Changes in Net Assets* for fiscal years 2008, 2007 and 2006 is as follows (dollar amounts in thousands):

	2008	2007	2006
Operating revenues	$ 337,304	$ 307,370	$ 275,124
Operating expenses, net	(653,219)	(593,652)	(573,187)
Operating loss	(315,915)	(286,282)	(298,063)
Nonoperating revenues, net	284,525	269,345	232,900
Capital contributions	144,096	75,283	62,487
Change in net assets	112,706	58,346	(2,676)
Net assets, beginning of year	4,384,634	4,326,288	4,328,964
Net assets, end of year	$4,497,340	$4,384,634	$4,326,288

OPERATING REVENUES

The increase of $29,934,000 in operating revenues in fiscal year 2008 is mainly credited to an increase of $27,377,000 from passenger fares and an increase of $1,555,000 in parking revenues. The increase in passenger fares is due to a 5.4% increase in weekday passenger trips from 339,359 in fiscal year 2007 to 357,775 in fiscal year 2008 and a 5.4% increase in passenger fare effective January 1, 2008.

The increase of $32,246,000 in operating revenues in fiscal year 2007 is mainly credited to (1) an increase of $25,841,000 from passenger fares and (2) a $6,043,000 increase in parking fees and increase in paid parking spaces ($3,729,000), advertising ($1,275,000) and fiber optics revenues ($1,039,000). The increase in passenger fares is due to a 5% increase in weekday passenger trips from 322,965 in fiscal year 2006 to 339,359 in fiscal year 2007 and the whole year effect in fiscal year 2007 (as compared to only six months in fiscal year 2006) of the 3.7% increase in passenger fare effective January 1, 2006.

OPERATING EXPENSES

The net operating expenses in fiscal year 2008 increased by $59,567,000 which is largely due to (1) an increase of $30,793,000 in other postemployment benefit (OPEB) expenses due to the implementation of GASB 45, which required that OPEB costs be accounted for on an accrual instead of the pay-as-you-go basis (see Note 13); (2) an increase of $5,128,000 in salaries and wages mainly due to the 2% contractual pay increase on July 1, 2007; (3) an increase of $2,844,000 primarily due to a 2% increase in employer contributions rate to CalPERS; (4) an increase of $3,692,000 in medical health insurance premiums consistent with industry norm; (5) a decrease of $3,808,000 in labor costs charged to completed capital projects in the prior year; (6) an increase of $3,509,000 in materials and supplies usage mainly for the repairs and maintenance of system structures and revenue vehicles; and (7) an increase of $7,391,000 in depreciation expense.

The net operating expenses for fiscal year 2007 increased by $20,465,000, which is due to (1) an increase of $13,788,000 in expenditures for traction and other electrical supply; (2) an increase of $7,121,000 in salaries and benefits mainly due to the contractual 2% pay increase effective July 1, 2006; (3) an increase of $5,814,000 in repairs and maintenance expenditures; (4) an increase of $5,410,000 in fees paid for professional and technical services; (5) an increase of $2,016,000 in health insurance premium; (6) an increase of $1,988,000 in employer's contribution payments to CalPERS; (7) an increase of $1,968,000 in property and liability insurance premium payments; and offset by (8) a decrease of $18,760,000 in depreciation expense.

NONOPERATING REVENUES

The nonoperating revenues in fiscal year 2008 had an increase of $15,180,000 which is primarily due to (1) an increase in property tax revenues of $13,353,000 earmarked for debt service of the General Obligation Bonds; and (2) an increase in sales tax revenues amounting to $3,827,000; which was offset by an increase of $6,786,000 in debt service and interest expenses due to the full payments of some long term debts in fiscal year 2007.

The net nonoperating revenues in fiscal year 2007 showed an increase of $36,445,000 as compared to fiscal year 2006. The increase is due to (1) a $40,000,000 increase in financial assistance mainly coming from additional State Transit Assistance ("STA") grants for operations ($18,000,000), receipts of federal grants to fund the BART Car Replacement Funding Exchange program ($22,680,000) (Note 10) and for preventive maintenance expenses ($4,176,000) and offset by (a) a contribution of $22,680,000 to MTC's restricted account designated for BART's car replacement program, and (b) a reduction in SamTrans financial assistance ($5,505,000); (2) an increase of $16,157,000 in investment income attributable (a) a higher average investment earnings rate of 5.12% in 2007 compared to 4.04% in 2006 and (b) receipt of $1,450,000 from the termination of the 2001 Bonds Reserve Fund Forward Purchase and Sale Agreement; (3) an increase of $7,125,000 in sales tax revenues; (4) an increase of $7,428,000 in revenues from property tax designated for operations and for debt service on the 2005 General Obligation Bonds; and offset by (5) a decrease of $11,042,000 attributed to the gain from the sale of the real properties in 2006, and no sale of real properties in 2007.

CAPITAL CONTRIBUTIONS

The revenues from capital contributions relate to grants and other financial assistance received by the District from the federal, state and local agencies to fund capital projects. The District receives reimbursement-type grants on which the District has to first incur eligible costs under the provider's program before qualifying for the grant resources. Revenues from capital contributions are recognized at the time when the eligible project costs are incurred. The capital contributions in fiscal year 2008 showed an increase of $68,813,000 and an increase of $12,796,000 in fiscal year 2007. The increase in fiscal year 2008 came from increases in federal grants amounting to $5,892,000, state grants of $29,027,000 and local grants of $33,888,000. The major additions in fiscal year 2008 to capital projects are detailed on page 7.

STATEMENTS OF NET ASSETS

A comparison of the District's *Statements of Net Assets* as of June 30, 2008, 2007 and 2006 is as follows (dollar amounts in thousands):

	2008	2007	2006
Current assets	$ 713,765	$ 643,176	$ 662,777
Noncurrent assets – capital assets, net	5,080,746	4,967,443	4,944,189
Noncurrent assets – other	589,910	174,661	329,019
Total assets	6,384,421	5,785,280	5,935,985
Current liabilities	339,020	248,586	360,225
Noncurrent liabilities	1,548,061	1,152,060	1,249,472
Total liabilities	1,887,081	1,400,646	1,609,697
Net assets			
Invested in capital assets, net of related debt	4,177,871	4,084,589	4,008,057
Restricted net assets	80,513	71,077	137,342
Unrestricted net assets	238,956	228,968	180,889
Total net assets	$4,497,340	$4,384,634	$4,326,288

CURRENT ASSETS

Current assets in fiscal year 2008 showed an increase of $70,589,000 and a decrease of $19,601,000 in fiscal year 2007. The increase in fiscal year 2008 can be attributed to an increase of $31,715,000 in cash, cash equivalents and investments - current and to an increase of $37,378,000 in capital grants receivable.

NONCURRENT ASSETS OTHER

Noncurrent assets - other in fiscal year 2008 showed an increase of $415,249,000 which is principally due to the increase in noncurrent restricted investments coming from the proceeds, premium and investment earnings of the 2007 General Obligation Bonds amounting to $413,047,000.

In fiscal year 2007, noncurrent assets – other decreased by $154,358,000 mainly due to (1) the decrease of $129,190,000 in investments restricted for debt service; and (2) the decrease of $28,826,000 in the deposits reserved for the District's sublease obligation on the 2002 lease/leaseback transaction involving rail traffic control equipment due to scheduled payments. The debt service funds were used to pay the final principal and interest payments on the TFA Bridge Toll Notes, the FTA Capital Grant Bonds and the 2004 SFO Extension Refunding Bonds, all of which were issued to finance the construction of the SFO Extension project.

CURRENT LIABILITIES

The current liabilities as of June 30, 2008 showed an increase of $90,434,000 which is mostly due to (1) an increase in payables to vendors and contractors for operating and capital expenditures amounting to $25,199,000; (2) an increase of $2l,274,000 in unfunded liabilities for other postemployment benefits; (3) an increase of $27,000,000 attributed to advance payments received from grant agreements mainly from Proposition 1B grants to fund the District's seismic retrofit program, extension, and other projects; and (4) an increase in interest expense payable of $5,824,000 largely from the General Obligation Bonds and the lease/leaseback obligation.

The current liabilities as of June 30, 2007 decreased by $111,639,000 which is mainly due to (1) the final payments of the principal amounts due in August 2006 and February 2007 on the TFA Bridge Toll Notes totaling $21,785,000, and in June 2007 on the FTA Capital Grant Bonds amounting to $46,330,000; (2) a decrease of $26,550,000 in the principal and interest payable on the 2002 lease/leaseback obligation related to the rail traffic control equipment; and (3) a decrease of $7,826,000 in liabilities to vendors related to construction projects.

NONCURRENT LIABILITIES

The noncurrent liabilities as of June 30, 2008 showed an increase of $396,001,000 which is largely due to (1) the issuance in July 2007 of a $400,000,000 General Obligation Bond as additional funding for the District's seismic project; (2) offset by the annual principal payments of $52,588,000 of the District's other long term debts; and (3) increase in advance from grant agreements of $39,865,000 coming from the Proposition 1B grants to fund the District's seismic retrofit program, extension and other projects.

CAPITAL ASSETS

The District's capital assets, before accumulated depreciation, increased by $244,811,000 in 2008 and by $138,611,000 in 2007. The major additions, including construction in progress, during the years included capital expenditures for the acquisition and/or major improvements on the following assets:

- core system and extensions amounting to $205,754,000 in 2008 and $118,587,000 in 2007;
- train control equipment totaling $10,602,000 in 2008 and $18,382,000 in 2007
- revenue transit vehicles in the amount of $7,320,000 in 2008 and $4,477,000 in 2007;
- automatic fare collection equipment amounting to $8,728,000 in 2008 and $8,221,000 in 2007; and,
- Business Advancement Plan (BAP) which is a project to replace the information technology systems supporting the District's administrative business totaling $3,773,000 in 2008 and $3,250,000 in 2007.

Details of the capital assets, net of accumulated depreciation, as of June 30, 2008, 2007 and 2006 are as follows (dollar amounts in thousands):

	2008	2007	2006
Land	$ 530,623	$ 530,509	$ 524,392
Stations, track, structures and improvements	2,926,965	2,907,322	2,929,155
Buildings	5,559	5,652	5,738
Revenue transit vehicles	447,243	493,401	539,634
Other	369,075	313,378	264,325
Construction in progress	801,281	717,181	680,945
Total capital assets	$5,080,746	$ 4,967,443	$4,944,189

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $647,751,000 at June 30, 2008 and $587,633,000 at June 30, 2007.

LONG-TERM DEBT

The outstanding balance of long-term debt showed an increase of $351,124,000 in fiscal year 2008 and a decrease of $176,169,000 in fiscal year 2007. Below is a summary of long-term debt as of June 30, 2008, 2007 and 2006 (including current portion but excluding unamortized balance of debt issue costs and bond premium/discounts) (dollar amounts in thousands):

	2008	2007	2006
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 728,725	$ 748,095	$ 763,875
Bonds payable from and collateralized by the Federal Full Funding Grant Agreement for the SFO Extension	–	–	102,030
Notes payable from bridge toll revenues	–	–	21,785
Construction loans payable from the net operating surplus of the SFO Extension	88,500	88,500	88,500
Construction loan for temporary cash flow requirements of the SFO Extension	42,000	47,000	40,895
Lease/leaseback obligation, including accumulated accretion, for rail traffic control equipment	124,624	128,695	158,009
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	55,595	56,165	56,715
General obligation bonds	467,320	87,185	100,000
Total long-term debt	$1,506,764	$ 1,155,640	$1,331,809

In fiscal year 2007, bonds issued related to the construction of the SFO Extension which are payable from the Federal Full Funding Grant Agreement and from the Bridge Toll revenues were fully paid. The payments include the redemption of a portion of the SFO Extension Refunding Bonds issued in 2004 with principal amount of $55,700,000 which matured on June 15, 2008 and 2009.

ADDITION TO LONG-TERM DEBT IN FISCAL YEAR 2008

In July 2007, the District issued the General Obligation (GO) Bonds (Election of 2004), 2007 Series B with an aggregate principal amount of $400,000,000. The 2007 GO Bonds constitute a portion of the total authorized amount of $980,000,000 of general obligation bonds of the District duly authorized by at least two-thirds of the qualified voters of the District voting on a ballot measure ("Measure AA") at an election held on November 2, 2004. The 2007 GO Bonds constitute the second issue of general obligation bonds pursuant to the Measure AA authorization. The Bonds were issued to finance earthquake safety improvements to BART facilities and structures. The Bonds are general obligations of the District, payable from and secured solely by property taxes levied by the District, as authorized by Measure AA, upon all property subject to taxation within the three BART counties of Alameda, Contra Costa and San Francisco. The national rating agencies of Standard & Poor's, Moody's and Fitch Ratings rated the 2007 GO Bonds at AAA, Aa1 and AAA, respectively.

ADDITION TO LONG-TERM DEBT IN FISCAL YEAR 2007

In fiscal year 2007, the District issued sales tax revenue bonds with a total principal amount of $108,110,000 (the "2006 Refunding Bonds") to advance refund a portion of the sales tax revenues bonds previously issued by the District in July 2001 in the aggregate principal amount of $102,560,000. Payment of principal and interest of the 2006 Refunding Bonds is insured by a municipal bond issuance policy issued by Financial Security Assurance Inc. The insured bonds were rated AAA by Standard & Poor's and Fitch Ratings.

STATEMENTS OF CASH FLOWS/CASH, CASH EQUIVALENTS AND INVESTMENTS

A comparative presentation of the major sources and uses of cash for 2008, 2007 and 2006 is as follows (dollar amounts in thousands):

	2008	2007	2006
Net cash used in operating activities	$ (145,150)	$ (158,273)	$ (150,474)
Net cash provided by noncapital financing activities	230,899	230,080	179,431
Net cash provided by (used in) capital and related financing activities	329,007	(229,420)	72,775
Net cash provided by (used in) investing activities	(410,748)	383,004	(125,409)
Net change in cash and cash equivalents	4,008	225,391	(23,677)
Cash and cash equivalents, beginning of year	553,636	328,245	351,922
Cash and cash equivalents, end of year	557,644	553,636	328,245
Investments, end of year	492,595	47,628	404,950
Cash, cash equivalents and investments, end of year	$1,050,239	$ 601,264	$ 733,195

CASH, CASH EQUIVALENTS AND INVESTMENTS

The total cash, cash equivalents and investments held by the District Treasury and trustee banks as of June 30, 2008 increased by $448,975,000 to $1,050,239,000 from $601,264,000 as of June 30, 2007. The increase is primarily due to the total investments of $415,736,000 purchased from the proceeds of the 2007 GO Bonds.

The total cash, cash equivalents and investments held by the District and trustee banks at June 30, 2007 amounted to $601,264,000, a decrease of $131,931,000 compared to $733,195,000 reported as of June 30, 2006. The decrease is due to the use of the debt service reserve funds of the TFA Bridge Toll notes ($16,573,000) and of the FTA Capital Grant Bonds ($112,616,000) to pay the final principal and interest installments of the long term debts.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The District's financial report is designed to provide the District's Board of Directors, management, investors, creditors, legislative and oversight agencies, citizens and customers with an overview of the District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Scott Schroeder, Controller-Treasurer, at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Net Assets
June 30, 2008 and 2007
(dollar amounts in thousands)

	2008	2007
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 333,528	$ 329,635
Investments	24,125	4,663
Capital grants receivable	69,159	31,781
Receivables and other assets	20,204	19,162
Current portion of capital lease receivable	3,154	3,155
Materials and supplies	29,997	29,542
Total unrestricted current assets	480,167	417,938
Restricted assets		
Cash and cash equivalents	224,116	224,001
Investments	9,482	1,237
Total restricted current assets	233,598	225,238
Total current assets	713,765	643,176
Noncurrent assets		
Capital assets		
Nondepreciable	1,331,904	1,247,690
Depreciable, net of accumulated depreciation	3,748,842	3,719,753
Unrestricted assets		
Investments		
Long-term portion of capital lease receivable	4,732	7,886
Receivables and other assets	13,575	12,951
Restricted assets		
Investments	458,988	41,728
Receivables and other assets	45,877	37,575
Deposits for sublease obligation	66,738	74,521
Total noncurrent assets	5,670,656	5,142,104
Total assets	$ 6,384,421	$ 5,785,280

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Net Assets (continued)
June 30, 2008 and 2007
(dollar amounts in thousands)

	2008	2007
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and other liabilities	$ 227,409	167,719
Current portion of long-term debt, net	59,279	57,584
Self-insurance liabilities	8,478	9,152
Deferred revenue	40,700	10,976
Current portion of capital lease liability	3,154	3,155
Total current liabilities	339,020	248,586
Noncurrent liabilities		
Long-term debt, net of current portion	1,448,477	1,086,680
Self-insurance liabilities	19,768	19,550
Deferred revenue	72,090	35,007
Capital lease liability, net of current portion	4,732	7,886
Other liabilities	2,994	2,937
Total noncurrent liabilities	1,548,061	1,152,060
Total liabilities	1,887,081	1,400,646
Net assets		
Invested in capital assets, net of related debt	4,177,871	4,084,589
Restricted net assets		
For debt service and other liabilities	80,513	71,077
Unrestricted net assets	238,956	228,968
Total net assets	$ 4,497,340	$ 4,384,634

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2008 and 2007

(dollar amounts in thousands)

	2008	2007
Operating revenues		
Fares	$ 309,457	$ 282,080
Other	27,847	25,290
Total operating revenues	337,304	307,370
Operating expenses		
Transportation	154,720	142,989
Maintenance	200,306	178,839
Police services	44,665	41,442
Construction and engineering	19,772	18,160
General and administrative	136,538	117,962
Depreciation	133,938	126,546
Total operating expenses	689,939	625,938
Less - capitalized costs	(36,720)	(32,286)
Net operating expenses	653,219	593,652
Operating loss	(315,915)	(286,282)
Nonoperating revenues (expenses)		
Transactions and use tax - sales tax	202,632	198,805
Property tax	65,341	50,452
Operating financial assistance	57,616	55,546
Contribution for BART car replacement funding exchange program	(22,681)	(22,680)
Investment income	49,183	47,852
Interest expense	(68,460)	(57,654)
Other income (expense), net	894	(2,976)
Total nonoperating revenues, net	284,525	269,345
Change in net assets before capital contributions	(31,390)	(16,937)
Capital contributions	144,096	75,283
Change in net assets	112,706	58,346
Net assets, beginning of year	4,384,634	4,326,288
Net assets, end of year	$ 4,497,340	$ 4,384,634

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Cash Flows
For the years ended June 30, 2008 and 2007
(dollar amounts in thousands)

	2008	2007
Cash flows from operating activities		
Receipts from customers	$ 311,066	$ 284,839
Payments to suppliers	(128,846)	(141,613)
Payments to employees	(353,312)	(324,974)
Other operating cash receipts	25,942	23,475
Net cash used in operating activities	(145,150)	(158,273)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	145,739	143,985
Property tax received	29,882	27,207
Financial assistance received	55,278	58,888
Net cash provided by noncapital financing activities	230,899	230,080
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	56,893	54,820
Property tax received	36,277	23,351
Capital grants received	111,328	72,116
Proceeds from issuance of 2007 General Obligation Bonds	400,000	–
Proceeds from issuance of 2006A Sales Tax Revenue Refunding Bonds	–	108,110
Proceeds from construction loans	–	3,301
Expenditures for facilities, property and equipment	(232,130)	(147,556)
Principal paid on long-term debt	(44,805)	(271,070)
Payments of long-term debt issuance and service costs	(1,440)	(1,328)
Premium received from issuance of long-term debt	12,335	410
Interest paid on long-term debt	(52,566)	(49,938)
Principal payments received from installment receivable	144	44
Advances from local funding agencies	66,593	1,000
Deposit - Lodi Power Plant	(941)	–
Contribution for BART car replacement funding exchange program	(22,681)	(22,680)
Net cash provided by (used in) capital and related financing activities	329,007	(229,420)

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Cash Flows (continued)
For the years ended June 30, 2008 and 2007
(dollar amounts in thousands)

	2008	2007
Cash flows from investing activities		
Proceeds from sale and maturity of investments	35,417	439,230
Purchase of investments	(477,120)	(90,625)
Investment income	30,955	34,399
Net cash provided by (used in) investing activities	(410,748)	383,004
Net change in cash and cash equivalents	4,008	225,391
Cash and cash equivalents, beginning of year	553,636	328,245
Cash and cash equivalents, end of year	$ 557,644	$ 553,636
Reconciliation of cash and cash equivalents to the Statements of Net Assets		
Current, unrestricted assets - cash and cash equivalents	$ 333,528	$329,635
Current, restricted assets – cash and cash equivalents	224,116	224,001
Total cash and cash equivalents	$ 557,644	$ 553,636

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Cash Flows (continued)
For the years ended June 30, 2008 and 2007
(dollar amounts in thousands)

	2008	2007
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (315,915)	$ (286,282)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	133,938	126,546
Amortization of deferred settlement costs	101	106
Net effect of changes in		
Receivables and other assets	588	(228)
Materials and supplies	(455)	262
Accounts payable and other liabilities	36,088	1,972
Self-insurance liabilities	456	348
Deferred revenue	49	(997)
Net cash used in operating activities	$ (145,150)	$ (158,273)
Noncash transactions		
Capital assets acquired with a liability at year-end	$ 52,460	$35,791
Lease/leaseback obligation additions	8,741	10,048
Lease/leaseback obligation amortization	12,812	39,362
Reduction in capital lease receivable and liability	3,154	3,155
Increase (decrease) in fair value of investments	4,204	(398)
Amortization of long-term debt premium, discount and issue costs	33	(5,745)
Amortization of deferred interest on early debt retirement	714	4,322
Amortization of deferred gain on lease/leaseback transaction	1,482	1,482
Advance from MTC reclassified to construction loan	–	12,804

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Retiree Health Benefit Trust
Statements of Trust Net Assets
June 30, 2008 and 2007
(dollar amounts in thousands)

	2008	2007
Assets		
Receivables and other assets	$ 611	$ 202
Pending trades receivable	7,255	2,727
Investments		
Domestic common stocks	19,549	27,801
U.S. Treasury obligations	12,546	13,423
Money market mutual funds	7,527	4,118
Mutual funds – equity	5,762	–
Corporate obligations	8,490	2,174
Foreign stocks	629	641
Foreign obligations	376	36
Total investments	54,879	48,193
Total assets	62,745	51,122
Liabilities		
Accounts payable	46	73
Pending trades payable	14,235	7,101
Total liabilities	14,281	7,174
Net assets held in trust for retiree health benefits	$ 48,464	$ 43,948

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Retiree Health Benefit Trust
Statements of Changes in Trust Net Assets
For the years ended June 30, 2008 and 2007

(dollar amounts in thousands)

	2008	2007
Additions		
Employer contributions		
Cash contributions	$ 8,136	$ –
Pay-as-you-go contributions	11,844	–
Total employer contributions	19,980	–
Investment income (expense)		
Interest income	1,362	1,186
Net appreciation (decrease) in fair value of investments	(4,756)	3,411
Investment expense	(174)	(229)
Net investment income (expense)	(3,568)	4,368
Total additions	16,412	4,368
Deductions		
Pay-as-you-go benefit payments	11,844	–
Legal fees	14	3
Audit fees	17	17
Insurance expense	21	22
Total deductions	11,896	42
Increase in trust net assets	4,516	4,326
Net assets held in trust for retiree health benefits:		
Beginning of year	43,948	39,622
End of year	$ 48,464	$ 43,948

The accompanying notes are an integral part of these financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

DESCRIPTION OF REPORTING ENTITY

The San Francisco Bay Area Rapid Transit District (the "District") is a public agency created by the legislature of the State of California in 1957 and regulated by the San Francisco Bay Area Rapid Transit District Act, as amended, and subject to transit district law as codified in the California Public Utilities Code. The disbursement of funds received by the District is controlled by statutes and by provisions of various grant contracts entered into with federal, state and local agencies.

The District has defined its financial reporting entity in accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, which states that the financial reporting entity should consist of (a) the primary government, (b) the organizations for which the primary government is financially accountable, and (c) the other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this definition, and the fact that the Transit Financing Authority (the "Authority") provides services almost entirely to the District, the primary government, the Authority's financial information is presented as a blended component unit of the District's financial statements (see Note 15).

BASIS OF ACCOUNTING AND PRESENTATION

The basic financial statements provide information about the District's Enterprise Fund and the Retiree Health Benefit Trust Fund. Separate statements for each fund category – proprietary and fiduciary – are presented. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenues from operating activities are recognized in the fiscal year that the operations were provided; revenues from property taxes and sales taxes are recognized in the fiscal year for which the underlying exchange takes place; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

The Enterprise Fund, a proprietary fund, distinguishes operating revenues and expenses from nonoperating items. The District's operating revenues are generated directly from its transit operations and consist principally of passenger fares. Operating expenses for the transit operations include all costs related to providing transit services. These costs include labor, fringe benefits, materials, supplies, services, utilities, leases and rentals, and depreciation on capital assets. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins ("ARBs") of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, not to apply FASB Statements and Interpretations issued after November 30, 1989, due to the nature of the District's operations.

The Retiree Health Benefit Trust Fund, a fiduciary fund, is used to account for assets held by the District as a trustee to pay retiree health care premiums. The assets of the Trust cannot be used to support the District's programs.

CASH EQUIVALENTS

For purposes of the statements of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

INVESTMENTS

The District records investment transactions on the trade date. Investments in nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposits and guaranteed investment contracts) are reported at cost and all other investments are at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is defined as the amount that the District could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and for the District's investments is generally measured by quoted market prices. As a matter of policy, the District usually holds investments until their maturity.

RESTRICTED ASSETS

Certain assets are classified as restricted assets on the statement of net assets because their use is subject to externally imposed stipulations, either by certain bond covenants, laws or regulations or provisions of debt agreements.

CAPITAL GRANTS/CONTRIBUTIONS

The District receives grants from the Federal Transit Administration ("FTA") and other agencies of the U.S. Department of Transportation, the State of California, and local transportation funds for the acquisition of transit-related equipment and improvements. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions are required to be included in the determination of changes in net assets resulting in an increase in net revenue of $144,096,000 and $75,283,000 for fiscal years 2008 and 2007, respectively. Capital grants receivables represent amounts expected from governmental agencies to reimburse the District for costs incurred for capital projects (see Notes 9 and 10).

MATERIALS AND SUPPLIES

Materials and supplies consist primarily of replacement parts for the system and rail vehicles, which are stated at cost using the average-cost method. Materials and supplies are expensed as consumed.

BOND ISSUANCE COSTS, DISCOUNTS, PREMIUMS AND DEFERRED AMOUNTS ON REFUNDINGS

The bond issuance costs, discounts, premiums and deferred amounts on refundings, are deferred and amortized over the term of the bonds as a component of interest expense. The unamortized portion of these items except the deferred bond issuance costs, which are classified as part of receivables and other assets, are presented as a reduction of the face amount of bonds payable.

CAPITAL ASSETS

Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 80 years. The District's policy is to capitalize acquisitions of capital assets with a cost greater than $5,000 and a useful life of more than one year, and all costs related to capital projects, regardless of amounts.

Major improvements and betterments to existing facilities and equipment are capitalized. Costs for maintenance and repairs that do not extend the useful life of the applicable assets are charged to expense as incurred. Upon disposition, costs and accumulated depreciation are removed from the accounts and resulting gains or losses are included in operations.

The District capitalizes certain interest income and expense related to tax-free borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax-free borrowings. Amounts capitalized were a net interest expense of $1,878,000 in fiscal year 2008 and a net interest income of $567,000 in fiscal year 2007.

DEFERRED REVENUE

Deferred revenue consists of 1) the cash gain received by the District from the lease/leaseback of certain rail traffic control equipment in 2002 (see Note 7) and from the sale/leaseback of 25 C-2 rail cars in 1995 (see Note 4); 2) prepayments of revenues related to license fees paid by telecommunication companies for the use of the District's right of way for wireless accessibility to their customers; 3) estimated passenger tickets sold but unused and 4) advances received from grant agreements.

COMPENSATED ABSENCES

Compensated absences are reported and accrued as a liability in the period incurred. The entire balance of compensated absences in the amounts of $54,594,000 and $50,164,000 as of June 30, 2008 and 2007, respectively, is considered short-term and presented as part of accounts payable and other liabilities in the statements of net assets.

OTHER POSTEMPLOYMENT BENEFITS

On July 1, 2007, the District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the District to account for and report the annual cost of other postemployment benefits ("OPEB") and the outstanding obligations and commitments related to OPEB. Annual OPEB cost for the District is based in an actuarially calculated amount. GASB Statement No. 45 also establishes disclosure requirements for information about the District's OPEB plan. The changes related to this statement are disclosed in Note 13.

PENSION DISCLOSURES

On July 1, 2007, the District adopted the provisions of GASB Statement No.50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pensions Plans and Note Disclosures for Defined Contribution Plans*, and No.27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with the requirements of Statements No.43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The changes related to this statement are disclosed in Note 11.

NET ASSETS

Net assets invested in capital assets, net of related debt include capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net assets are restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation and include amounts restricted for debt service and other liabilities. All other net assets are unrestricted. Generally, the District's policy is to spend restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

TRANSACTIONS AND USE TAX (SALES TAX) REVENUES

The State of California legislation authorizes the District to impose a 0.5% transaction and use tax within District boundaries, which is collected and administered by the State Board of Equalization. Of the amounts available for distribution, 75% is paid directly to the District for the purpose of paying operating expenses, except for the portion that is paid directly to trustees to cover principal and interest payments of maturing sales tax revenue bonds and equity reserves. The remaining 25% is allocated by the Metropolitan Transportation Commission ("MTC") to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services. The District records the total transactions and use taxes earned (including amounts paid to the trustee) as revenue.

PROPERTY TAXES, COLLECTION AND MAXIMUM RATES

The State of California Constitution Article XIII.A provides that the general purpose maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII.A and may be adjusted by no more than 2% per year, unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts, such as the District.

The District receives an allocation of property tax revenues for transit operations. Additionally, beginning in fiscal year 2006, the District received property tax allocations for the debt service payments on the 2005 General Obligation Bonds. As required by the law of the State of California, the District utilizes the services of each of the three BART Counties of Alameda, Contra Costa and San Francisco for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax rolls as county, school district and other special district taxes. Property taxes are recorded as revenue in the fiscal year of levy. Assessed values are determined annually by the Assessor's Offices of City and County of San Francisco, County of Alameda and County of Contra Costa on January l, and become a lien on the real properties at January 1. The levy date for secured and unsecured properties is July 1 of each year. Secured taxes are due November l and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent after August 31.

OPERATING FINANCIAL ASSISTANCE

Financial assistance grants for operations from federal, state and local agencies are reported as nonoperating revenue in the period to which the grant applies and, for cost reimbursement grants, to the period in which the related expenditures are incurred (see Notes 9 and 10).

COLLECTIVE BARGAINING

Approximately 88% of the District's employees are subject to collective bargaining. The current bargaining units consist of the following:

- American Federation of State, County and Municipal Employees (AFSCME), Local 3993
- Amalgamated Transit Union (ATU), Local 1555
- Service Employees International Union (SEIU), Local 1021
- BART Police Officers Association (BPOA)
- BART Police Managers Association (BPMA)

CAPITALIZED COSTS

The District initially charges employee salaries, wages and benefits to operating expenses by functional expense category. Labor costs included in those amounts that are associated with capital projects are subsequently reclassified to be included in the cost of the related capital asset. This reclassification is reflected in the statement of revenues, expenses and changes in net assets as a reduction of operating expenses. The amounts of $36,720,000 and $32,286,000 were capitalized during the years ended June 30, 2008 and 2007, respectively.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation. In fiscal year 2007, the District made payments to MTC to fund BART's car replacement program (see Note 9), which were charged as special item – expense in the statement of revenues, expenses and changes in net assets. In fiscal year 2008, the District and MTC agreed to expand the program to multi-years, which is currently 4 years, and because of this change of plan, such payments to MTC were reclassified to nonoperating expense. This also includes the reclassification of bond issuance costs, bond discounts and deferred loss on refundings between assets and liabilities.

RECENT ACCOUNTING PRONOUNCEMENTS THAT HAVE NOT BEEN ADOPTED

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. Application of this statement is effective for the District's fiscal year ending June 30, 2009.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the District's fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this statement is effective for the District's fiscal year ending June 30, 2010.

2. Cash, Cash Equivalents and Investments

A. CASH, CASH EQUIVALENTS AND INVESTMENTS OF THE ENTERPRISE FUND

Cash, cash equivalents and investments are reported in the Enterprise Fund as follows (dollar amounts in thousands):

	2008			2007		
	Unrestricted	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**
Current assets						
Cash and cash equivalents	$ 333,528	$ 224,116	$ 557,644	$ 329,635	$ 224,001	$ 553,636
Investments	24,125	9,482	33,607	4,663	1,237	5,900
Noncurrent assets						
Investments	–	458,988	458,988	–	41,728	41,728
Total	$ 357,653	$ 692,586	$ 1,050,239	$ 334,298	$ 266,966	$ 601,264

INVESTMENT POLICY

The California Public Utilities Code, Section 29100, and the California Government Code, Section 53601, provide the basis for the District's investment policy. To meet the objectives of the investment policy – (1) preservation of capital, (2) liquidity, and (3) yield – the investment policy, approved by the Board of Directors, specifically identifies the types of permitted investments, as well as any maturity limits and other restrictions. The District's investment policy, which is more restrictive than required by law, allows investments in the following:

- Repurchase agreements,
- Reverse repurchase agreements,
- Collateralized time deposits,
- Money market mutual funds,
- California Local Agency Investment Fund, and
- Securities of the U.S. Government and its agencies.

The District's investments include amounts invested in the State of California Local Agency Investment Fund ("LAIF"). The total amount invested by all public agencies in LAIF at June 30, 2008 and 2007 was $25.2 billion and $19.7 billion, respectively. LAIF is part of the State of California Pooled Money Investment Account ("PMIA"), whose balance at June 30, 2008 and 2007 was $70.0 billion and $65.6 billion, respectively. Of these amounts, 14.72% and 3.5% were invested in structured notes and asset-backed securities and the remaining balance was invested in non-derivative instruments as of June 30, 2008 and 2007, respectively. PMIA is not SEC-registered, but is required to invest according to the California Government Code. The average maturity of PMIA investments was 224 days and 176 days as of June 30, 2008 and 2007, respectively. The Local Investment Advisory Board ("Board") has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool. Withdrawals from LAIF are made on a dollar to dollar basis.

INTEREST RATE RISK

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. One of the District's primary objectives is to provide sufficient liquidity to meet its cash outflow needs, however, the District does not have any policies specifically addressing interest rate risk. A summary of investments by type of investments and by segmented time distribution as of June 30, 2008 and 2007 is as follows (dollar amounts in thousands):

	2008	Investment Maturities (in Years)			
	Fair Value	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Money market mutual funds	$ 171,831	$ 171,831	$ –	$ –	$ –
U.S. government agencies	205,529	159,588	4,141	5,313	36,487
Repurchase agreements	445,228	32,180	413,048	–	–
U.S. Treasury bills	164,574	164,574	–	–	–
Local Agency Investment Fund	20,000	20,000	–	–	–
Total investments	$ 1,007,162	$ 548,173	$ 417,189	$ 5,313	$ 36,487
Deposits with banks	38,898				
Certificates of deposit	3,800				
Imprest funds	379				
Total cash and investments	$ 1,050,239				

	2007	Investment Maturities (in Years)			
	Fair Value	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Money market mutual funds	$ 147,238	$147,238	$ –	$ –	$ –
U.S. government agencies	255,706	213,977	3,955	5,094	32,680
Repurchase agreements	115,729	115,729	–	–	–
Local Agency Investment Fund	20,000	20,000	–	–	–
Total investments	538,673	$ 496,944	$3,955	$ 5,094	$ 32,680
Deposits with banks	56,313				
Certificates of deposit	5,900				
Imprest funds	378				
Total cash and investments	$ 601,264				

CREDIT RISK

The District's credit rating risk is governed by Section 53601 of the California Government Code which, among others, limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is Aaam. The District has investments in U.S. Treasury and government agencies, bank repurchase agreements (underlying of U.S. Treasury securities and others), money market mutual funds, and in LAIF. There are no investment limits on the securities of U.S. Treasury or certain U.S. government agencies that are backed by the full faith and credit of the United States government. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's, Fitch Ratings and Moody's as of June 30, 2008 and 2007 (dollar amounts in thousands):

	2008	Credit Ratings			
	Fair Value	**AAA**	**AA**	**A**	**Not Rated**
Money market mutual funds	$ 171,831	$ 171,831	$ –	$ –	$ –
U.S. Government agencies	205,529	9,094	–	160,271	36,164
Repurchase agreements	445,228	206,509	206,539	32,180	–
U.S. Treasury bills	164,574	164,574	–	–	–
Local Agency Investment Fund	20,000	–	–	–	20,000
Total investments	1,007,162	$ 552,008	$ 206,539	$192,451	$ 56,164
Deposits with banks	38,898				
Certificates of deposit	3,800				
Imprest funds	379				
Total cash and investments	$ 1,050,239				

	2007	Credit Ratings			
	Fair Value	**AAA**	**AA**	**A**	**Not Rated**
Money market mutual funds	$ 147,238	$ 147,238	$ –	$ –	$ –
U.S. Government agencies	255,706	8,690	–	214,660	32,356
Repurchase agreements	115,729	–	54,674	61,055	–
Local Agency Investment Fund	20,000	–	–	–	20,000
Total investments	538,673	$ 155,928	$ 54,674	$275,715	$ 52,356
Deposits with banks	56,313				
Certificates of deposit	5,900				
Imprest funds	378				
Total cash and investments	$ 601,264				

CONCENTRATION OF CREDIT RISK

The District does not have a policy to limit investments in any one issuer to no more than 5% of the total portfolio. However, the California Government Code generally recommends that investments in one issuer do not exceed 5% of the entity's total portfolio, except investments issued by or explicitly guaranteed by the U.S. Government and investments in money market mutual funds, external investment pools, and other pooled investments. The following investments exceeded 5% of the District's total investment portfolio (dollar amounts in thousands):

	2008		2007	
	Amount	Percentage of Total Investment Portfolio (%)	Amount	Percentage of Total Investment Portfolio (%)
Federal National Mortgage Association	$ 114,605	11%	$ 183,894	31%
Federal Home Loan Mortgage Corporation	–	–	39,455	7%
Morgan Stanley Repurchase Agreement	–	–	61,055	10%
MBIA Repurchase Agreement	206,539	20%	54,674	9%
FSA Cap Repurchase Agreement	206,509	20%	–	–

CUSTODIAL CREDIT RISK - DEPOSITS

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral is considered to be held in the District's name.

CUSTODIAL CREDIT RISK - INVESTMENTS

For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the District may not be able to recover the value of its investments. The exposure to the District is limited as the District's investments are held in the District's name by a third-party safe-keeping custodian that is separate from the counterparty or in the custody of a trust department, as required by bond covenants.

B. INVESTMENTS OF THE RETIREE HEALTH BENEFIT TRUST ("TRUST")

INVESTMENT POLICY

The investment objective of the Trust is to achieve consistent long-term growth for the Trust and to maximize income consistent with the preservation of capital for the sole and exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Trust. The District's Board of Directors establishes the general investment policy and guidelines for the Trust. Allowable investments under the Trust investment guidelines include:

- Cash equivalents such as U.S. Treasury bills, money market trusts, short-term interest fund ("STIF") trusts, commercial paper rated A1/P1, banker's acceptances, certificates of deposits and repurchase agreements;
- Fixed income securities which include U.S. agency and corporation bonds (including Yankees) and preferred stock and Rule 144A issues, and mortgage or asset-backed securities;
- Equity securities, including U.S. traded common, preferred stocks and convertible stocks and bonds, including American Depository Receipts.

INTEREST RATE RISK

The Trust's investment policies mitigate exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines:

Asset Class	Minimum	Maximum	Preferred
Equity securities	45%	70%	60%
Fixed income securities	25%	45%	35%
Cash equivalents	3%	10%	5%

A summary of investments by type of investments and by segmented time distribution as of June 30, 2008 and 2007 is as follows (dollar amounts in thousands):

	2008	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 12,546	$ 3,030	$ 334	$ 453	$ 8,729
Money market mutual funds	7,527	7,527	–	–	–
Corporate obligations	8,490	–	1,960	1,583	4,947
Foreign obligations	376	–	79	156	141
Investments subject to interest rate risk	28,939	$ 10,557	$ 2,373	$ 2,192	$ 13,817
Domestic common stocks	19,549				
Mutual funds- equity	5,762				
Foreign stocks	629				
Total investments	$ 54,879				

	2007	Investment Maturities (in Years)			
	Fair Value	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
U.S. Treasury obligations	$ 13,423	$ 150	$ 3,073	$ 3,456	$ 6,744
Money market mutual funds	4,118	4,118	–	–	–
Corporate obligations	2,174	–	439	248	1,487
Foreign obligations	36	–	–	–	36
Investments subject to interest rate risk	19,751	$ 4,268	$ 3,512	$3,704	$8,267
Domestic common stocks	27,801				
Foreign stocks	641				
Total investments	48,193				

CREDIT RISK

The Trust's credit risk policy is defined in its Statement of Investment Policy approved by the District's Board of Directors. The policy states that the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Trust's objectives and that the Trust's investment managers are expected to make reasonable efforts to control risk. The investment policy requires that all of the Trust's assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Trust, with minimal impact on market prices. The investment policy also demands that no single investment shall exceed five percent of the total Trust assets, at market value, except obligations of the U.S. Government, short-term money market funds, index funds and other diversified commingled accounts; and for actively managed equity accounts, where, for issues that comprise more than 4% of the account's stated benchmark, the limit shall be 125% of the weight of the common stock benchmark. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's and Moody's as of June 30, 2008 and 2007 (dollar amounts in thousands):

	2008	Credit Ratings			
	Fair Value	**AAA**	**AA**	**A**	**BBB**
U.S. Treasury obligations	$ 12,546	$ 12,546	$ –	$ –	$ –
Money market mutual funds	7,527	7,527	–	–	–
Corporate obligations	8,490	4,143	804	1,979	1,564
Foreign obligations	376	–	–	50	326
Investments subject to credit risk	28,939	$ 24,216	$ 804	$ 2,029	$ 1,890
Domestic common stocks	19,549				
Mutual funds - equity	5,762				
Foreign stocks	629				
Total investments	$ 54,879				

	2007	Credit Ratings		
	Fair Value	AAA	A	BBB
U.S. Treasury obligations	$ 13,423	$ 13,423	$ –	$ –
Money market mutual funds	4,118	4,118	–	
Corporate obligations	2,174	1,726	281	167
Foreign obligations	36	36	–	–
Investments subject to credit risk	19,751	$ 19,303	$ 281	$ 167
Domestic common stocks	27,801			
Foreign stocks	641			
Total investments	$ 48,193			

CONCENTRATION OF CREDIT RISK

The Trust's investment policies mitigate exposure to concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5% of the total portfolio.

CUSTODIAL CREDIT RISK - INVESTMENTS

For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the Trust may not be able to recover the value of its investments. The exposure to the Trust is limited as the Trust's investments are in the custody of a third-party custodian that is separate from the counterparty.

3. Receivables and Other Assets

The District reports the following aggregated accounts as receivables and other assets in the statements of net assets as of June 30, 2008 and 2007 (dollar amounts in thousands):

	2008	2007
Interest receivable - trust for sublease obligation	$ 32,192	$ 27,780
Interest receivable - other investments	3,762	1,361
Unamortized issue costs	13,525	12,799
Deferred settlement costs	864	966
Deposit for power supply	9,309	8,003
Off-site ticket vendor receivable	4,512	4,876
Notes receivable	4,139	4,198
Capitol Corridor Joint Powers Authority receivable (see Note 16)	2,384	3,602
Property tax receivable	840	1,658
Prepaid expenses	2,249	1,526
Imprest deposits for self-insurance liabilities	623	659
Other	5,316	2,551
Allowance for doubtful accounts - other	(59)	(291)
Total receivables and other assets	$ 79,656	$ 69,688
Current, unrestricted portion	$ 20,204	$ 19,162
Noncurrent, unrestricted portion	13,575	12,951
Noncurrent, restricted portion	45,877	37,575
Total receivables and other assets, as presented in the basic financial statements	$ 79,656	$ 69,688

4. Capital Lease Receivable and Liability (Sale/Leaseback – Revenue Transit Vehicles)

On March 30, 1995, the District entered into an agreement with a Swedish corporation to sell 25 newly manufactured C-2 rail cars for $50,383,000 and simultaneously entered into an agreement to lease them back. The lease agreement was effective on the closing date of September 15, 1995, and continues through January 15, 2011.

The District recorded a gain on the sale of approximately $2,015,000, which is equal to the amount of cash received on the sale. The gain was deferred and is being amortized over 30 years. In addition, the District recorded a receivable of $48,368,000 and a capital lease obligation of the same amount. The receivable and the liability will be reduced by a corresponding amount over the term of the lease. At June 30, 2008 and 2007, the balance of the deferred gain was $943,000 and $997,000, respectively. The balance of both the receivable and the liability was $7,886,000 and $11,041,000 as of June 30, 2008 and 2007, respectively and is reflected in the statements of net assets as a capital lease receivable and capital lease liability, respectively. Other than the cash received upon the sale, no cash will be exchanged between the parties in settlement of the receivable and liability.

At June 30, 2008 and 2007 the balances of the capital lease receivable and of the capital lease liability related to the sale/leaseback are summarized as follows (dollar amounts in thousands):

	2008	2007
Amounts at beginning of year	$ 11,041	$ 14,195
Amortization during the year	(3,155)	(3,154)
Balance at end of year	7,886	11,041
Less – current portion	(3,154)	(3,155)
Net noncurrent portion	$ 4,732	$ 7,886

The District's capital lease receivable and capital lease liability have the following maturities for the remaining three fiscal years, which are summarized as follows (dollar amounts in thousands):

Fiscal Year Year Ending June 30	Annual Installments
2009	$ 3,154
2010	3,155
2011	1,577
	$ 7,886

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled $24,232,000 and $22,379,000 as of June 30, 2008 and 2007, respectively.

5. Capital Assets

Changes to capital assets during the year ended June 30, 2008 were as follows (dollar amounts in thousands):

	Lives (Years)	2007	Additions and Transfers	Retirements and Transfers	2008
Capital assets, not being depreciated					
Land	N/A	$ 530,509	$ 114	$ –	$ 530,623
Construction in progress	N/A	717,181	245,483	(161,383)	801,281
Total capital assets, not being depreciated		1,247,690	245,597	(161,383)	1,331,904
Capital assets, being depreciated					
Stations, track, structures and improvements	80	3,582,842	68,187	46	3,651,075
Buildings	80	7,472	–	–	7,472
System-wide operation and control	20	543,763	5,361	(403)	548,721
Revenue transit vehicles	30	1,042,346	–	–	1,042,346
Revenue transit vehicles under capital lease	30	55,593	–	–	55,593
Service and miscellaneous equipment	3-20	117,522	87,571	(2,291)	202,802
Capitalized construction and start-up costs	30	98,305	–	–	98,305
Repairable property items	30	15,215	2,142	(16)	17,341
Total capital assets, being depreciated		5,463,058	163,261	(2,664)	5,623,655
Less accumulated depreciation		(1,743,305)	(133,938)	2,430	(1,874,813)
Total capital assets, being depreciated, net		3,719,753	29,323	(234)	3,748,842
Total capital assets, net		$ 4,967,443	$ 274,920	$ (161,617)	$ 5,080,746

Changes to capital assets during the year ended June 30, 2007 were as follows (dollar amounts in thousands):

	Lives (Years)	2006	Additions and Transfers	Retirements and Transfers	2007
Capital assets, not being depreciated					
Land	N/A	$ 524,392	$6,117	$ –	$ 530,509
Construction in progress	N/A	680,945	146,475	(110,239)	717,181
Total capital assets, not being depreciated		1,205,337	152,592	(110,239)	1,247,690
Capital assets, being depreciated					
Stations, track, structures and improvements	80	3,570,145	24,845	(12,148)	3,582,842
Buildings	80	7,472	–	–	7,472
System-wide operation and control	20	518,311	25,614	(162)	543,763
Revenue transit vehicles	30	1,042,346	–	–	1,042,346
Revenue transit vehicles under capital lease	30	55,593	–	–	55,593
Service and miscellaneous equipment	3-20	59,449	58,368	(295)	117,522
Capitalized construction and start-up costs	30	98,305	–	–	98,305
Repairable property items	30	15,179	36	–	15,215
Total capital assets, being depreciated		5,366,800	108,863	(12,605)	5,463,058
Less accumulated depreciation		(1,627,948)	(126,547)	11,190	(1,743,305)
Total capital assets, being depreciated, net		3,738,852	(17,684)	(1,415)	3,719,753
Total capital assets, net		$ 4,944,189	$ 134,908	$ (111,654)	$ 4,967,443

In 2004, the District completed construction of Phase 1 of an extension program that added 38 miles of track and 10 new stations to the system at a total cost of approximately $3,477,127,000. The funding for Phase 1 came from the Federal Government ($877,634,000), State of California ($741,770,000), San Mateo County ($502,719,000), Alameda and Contra Costa Counties ($505,000,000), bridge tolls ($279,811,000), San Francisco International Airport ($200,000,000), and the District ($370,193,000).

With the completion and pending close out of the project phase of the San Francisco Airport Extension, the District's focus turned to other important projects and cooperative studies. Looking east, the proposed East Contra Costa BART Extension ("eBART") in Contra Costa County is moving forward in cooperation with affected jurisdictions, and the West Dublin/Pleasanton Infill Station is moving under construction. Projects grappling with funding shortfalls include the Oakland Airport Connector ("OAC"), for which the District is looking at alternative delivery options to move forward, and the Warm Springs Extension. Additionally, BART is leading the Regional Measure 2 ("RM2") funded Regional Rail Study, which will attempt to define the passenger rail network in the Bay Area.

Under the Federal Full Funding Grant Agreement, $1,347,230,000 was approved for project costs associated with the San Francisco International Airport Extension ("SFO Extension project") with funding participation from the Federal Government, State of California and certain local agencies. As a local funding participant, the San Francisco International Airport Commission ("SFIA") pledged to contribute funds to the federally approved project up to $77,000,000. The District entered into various agreements with the City and County of San Francisco, acting by and through SFIA, which defined the specific project costs that could be funded from the $77,000,000 contribution. The agreements stated that the contribution would be used for the eligible BART Operating Systems Work on the portion of the project related to the San Francisco International Airport station ("On Airport project"). Eligible project costs include the design, construction, construction support, management and oversight, general and administrative costs and other associated costs of the On Airport project. Based on the agreements between SFIA and the District, SFIA shall own all rights, titles and interest associated with the assets paid from the $77,000,000 until the end of the projected useful life of each asset at which time, all of SFIA's rights, titles and interest associated with the assets shall transfer to the District, without payment by the District. The risk of loss on all assets acquired from the SFIA contributions are, at all times, assumed by the District.

The construction of the SFO Extension project was completed in 2003 and revenue operations started on June 22, 2003. All costs incurred as of June 30, 2008, including those paid from and/or incurred against the SFIA contribution, have been capitalized to capital assets and accordingly are subject to depreciation. As of June 30, 2008, the capital assets related to the SFIA contribution amounted to $61,256,000 with an accumulated depreciation of $4,356,000.

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $647,751,000 at June 30, 2008, and $587,633,000 in 2007.

6. Accounts Payable and Other Liabilities

The District reports the following aggregated payables as accounts payable and other liabilities in the statements of net assets as of June 30, 2008 and 2007 (dollar amounts in thousands):

	2008	2007
Payable to vendors and contractors	$ 97,352	$ 71,277
Employee salaries and benefits	102,166	74,312
Accrued interest payable	29,479	23,428
Liabilities at the end of year	228,997	169,017
Less noncurrent portion, reported within other liabilities	(1,588)	(1,298)
Net current portion	$ 227,409	$ 167,719

7. Long-Term Debt

Long-term debt activity for the years ended June 30, 2008 is summarized as follows (dollar amounts in thousands):

	2007	Additions/ Accretion	Payments/ Amortization	2008
1990 Sales Tax Revenue Refunding Bonds	$ 28,775	$ –	$ –	$ 28,775
1998 Sales Tax Revenue Bonds	163,090	–	(5,540)	157,550
2001 Sales Tax Revenue Bonds	43,765	–	–	43,765
2005 Sales Tax Revenue Refunding Bonds	339,440	–	(13,650)	325,790
2006 Sales Tax Revenue Bonds	64,915	–	–	64,915
2006 Sales Tax Revenue Refunding Bonds	108,110	–	(180)	107,930
Construction Loans	135,500	–	(5,000)	130,500
Lease/Leaseback Obligation	111,426	–	(7,783)	103,643
2002 SFO Extension Premium Fare Bonds	56,165	–	(570)	55,595
2005 General Obligation Bonds	87,185	–	(19,865)	67,320
2007 General Obligation Bonds	–	400,000	–	400,000
	1,138,371	400,000	(52,588)	1,485,783
Add (less):				
Accumulated Accretion on Lease/ Leaseback Obligation	17,269	8,741	(5,029)	20,981
Debt related items*	(11,376)	12,335	33	992
Long-term debt net of accumulated accretion and debt related items	1,144,264	$ 421,076	$ (57,584)	1,507,756
Less: current portion of long-term debt	(57,584)			(59,279)
Net long-term debt	$ 1,086,680			$ 1,448,477

* Debt related items consist of deferred amounts on refundings, discounts and premiums.

	2006	Additions/ Accretion	Payments/ Amortization	2007
1990 Sales Tax Revenue Refunding Bonds	$ 28,775	$ –	$ –	$ 28,775
1998 Sales Tax Revenue Bonds	171,765	–	(8,675)	163,090
2001 Sales Tax Revenue Bonds	146,325	–	(102,560)	43,765
2005 Sales Tax Revenue Refunding Bonds	352,095	–	(12,655)	339,440
2006 Sales Tax Revenue Bonds	64,915	–	–	64,915
2006 Sales Tax Revenue Refunding Bonds	–	108,110	–	108,110
TFA Bridge Toll Notes	21,785	–	(21,785)	–
Construction Loans	129,395	16,105	(10,000)	135,500
FTA Capital Grant Bonds	46,330	–	(46,330)	–
Lease/Leaseback Obligation	140,252	–	(28,826)	111,426
2002 SFO Extension Premium Fare Bonds	56,715	–	(550)	56,165
2004 SFO Extension Refunding Bonds	55,700	–	(55,700)	–
2005 General Obligation Bonds	100,000	–	(12,815)	87,185
	1,314,052	124,215	(299,896)	1,138,371
Add (less):				
Accumulated Accretion on Lease/ Leaseback Obligation	17,757	10,048	(10,536)	17,269
Debt related items*	1,597	(7,228)	(5,745)	(11,376)
Long-term debt net of accumulated accretion and debt related items	1,333,406	$ 127,035	$ (316,177)	1,144,264
Less: current portion of long-term debt	(154,061)			(57,584)
Net long-term debt	$ 1,179,345			$ 1,086,680

* Debt related items consist of deferred amounts on refundings, discounts and premiums.

1990 SALES TAX REVENUE REFUNDING BONDS (THE 1990 BONDS)

In July 1990, the District issued sales tax revenue refunding bonds totaling $158,478,000 to refund and defease $141,045,000 outstanding principal amount of the District's Sales Tax Revenue Bonds, Series 1985. The 1990 Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2008, the 1990 Bonds consist of $28,775,000 in current interest serial bonds due from 2010 to 2011 with an interest rate of 6.75%.

1998 SALES TAX REVENUE BONDS (THE 1998 BONDS)

In March 1998, the District issued sales tax revenue bonds totaling $348,510,000 to provide funds for certain capital improvements, including rehabilitation of the District's vehicles and facilities, to repay obligations of approximately $49,645,000 related to a lease of certain telecommunications equipment, and to refund certain outstanding bonds with principal amounts of $155,115,000 to achieve debt service savings. The 1998 Bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. In August 2005, a portion of the 1998 Bonds with an aggregate principal amount of $155,650,000 were refunded from the proceeds of the 2005 Bonds. At June 30, 2008, the 1998 Bonds consist of $37,720,000 in serial bonds due from 2008 to 2018 with interest rates ranging from 4.30% to 5.50%, a $79,105,000 term bond due July 1, 2023 with an interest rate of 4.75% and a $40,725,000 term bond due July 1, 2028 with an interest rate of 5%. The District is required to make sinking fund payments on the term bond due July 1, 2023 beginning on July 1, 2019 and on the term bond due July 1, 2028 beginning on July 1, 2024. In addition, the 1998 bonds maturing after June 30, 2009 may be redeemed prior to their respective maturities after June 30, 2008 at the option of the District at prices ranging from 100% to 101%.

2001 SALES TAX REVENUE BONDS (THE 2001 BONDS)

In July 2001, the District issued sales tax revenue bonds totaling $168,650,000 to fund the rehabilitation of District rail cars and certain other capital improvements, to fund capital reserves to be utilized in connection with the SFO Extension project and to refund certain outstanding bonds with principal amounts of $41,175,000. In August 2005, 2001 Bonds with principal amounts totaling $19,640,000 were refunded from the proceeds of the 2005 Bonds. Another refunding of the 2001 Bonds occurred in July 2006 when 2001 Bonds with principal amounts totaling $102,560,000 were refunded from the proceeds of the 2006 Refunding Bonds. At June 30, 2008, the 2001 Bonds consist of $15,310,000 in serial bonds due from 2012 to 2021 with interest rates ranging from 4.375% to 5.250%, a $7,225,000 term bond due July 1, 2026 with an interest rate of 5%, a $9,275,000 term bond due July 1, 2031 with an interest rate of 5%, and a $11,955,000 term bond due July 1, 2036 with an interest rate of 5.125%. The District is required to make sinking fund payments on the term bond due July 1, 2026 beginning on July 1, 2022, on the term bond due July 1, 2031 beginning July 1, 2027, and on the term bond due on July 1, 2036 beginning on July 1, 2032. In addition, the 2001 Bonds maturing on or after July 1, 2012 may be redeemed prior to their respective stated maturities, at the option of the District, as a whole or in part, on any date on or after July 1, 2011, at the principal amount called for redemption plus interest accrued thereon to the date fixed for redemption without premium.

2005 SALES TAX REVENUE REFUNDING BONDS (THE 2005 BONDS)

In August 2005, the District issued the Sales Tax Revenue Bonds, Refunding Series 2005 A totaling $352,095,000. The 2005 Bonds were used to advance refund $349,925,000 in aggregate principal amount of sales tax revenue bonds related to the Sales Tax Revenue Bonds, Series 1995, 1998, 1999, and 2001. The 2005 Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2008, the 2005 Bonds consist of $236,670,000 in serial bonds due from 2008 to 2026 with interest rates ranging from 3.00% to 5.00%, two 5.00% term bonds in the amounts of $55,685,000 and $31,785,000 due in 2030 and 2034, respectively, and one 4.50% term bond for $1,650,000 due in 2030.

2006 SALES TAX REVENUE BONDS (THE 2006 BONDS)

In June 2006, the District issued sales tax revenue bonds with an aggregate principal amount of $64,915,000 to finance a portion of the cost of construction of a new transit station, the West Dublin/Pleasanton Station including two parking facilities, pedestrian bridges, a bus intermodal facility and related improvements. The 2006 Bonds are special obligations of the District payable from and secured by a pledge of sales tax revenues. At June 30, 2008, the 2006 Bonds outstanding consist of $20,110,000 in serial bonds due from 2014 to 2026 with interest rates ranging from 4.0% to 4.625%, $17,995,000 in term bonds due July 1, 2031 with 5.0% interest rate and $26,810,000 in term bonds due July 1, 2036 at 5.0% interest rate. The term bonds are subject to mandatory sinking account payments beginning in 2027 for the term bonds due in 2031 and 2032 for the term bonds due in 2036.

2006 SALES TAX REVENUE REFUNDING BONDS (THE 2006 REFUNDING BONDS)

On November 30, 2006, the District issued the Sales Tax Revenue Bonds, Refunding Series 2006A, with a principal amount of $108,110,000 to advance refund a portion of the 2001 Bonds with an aggregate principal amount of $102,560,000. The 2006 Refunding Bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues. At June 30, 2008, the 2006 Refunding Bonds consist of serial bonds amounting to $53,360,000 with interest rates ranging from 4.0% to 5.0%, and term bonds totaling $54,570,000 of various maturity dates from 2029 to 2036 with an interest rate of 4.25%. The term bonds are subject to redemption in part, by lot, from Mandatory Sinking Account Payments required by the Indenture on certain dates, at the principal amount of the 2006 Refunding Bonds to be redeemed plus accrued interest, if any, to the redemption date. The refunding resulted in a cash flow savings of $6,711,000 and an economic gain of $6,402,000.

TRANSIT FINANCING AUTHORITY (“AUTHORITY”) BRIDGE TOLL NOTES

In order to fund a portion of the costs of the SFO extension project in September 1999, the Authority issued a limited liability note (the “Bridge Toll Note”) in the amount of $65,680,000, payable from and collateralized solely by a pledge of certain bridge toll revenues allocated to the District by MTC. The Bridge Toll Notes were fully paid during the year ended June 30, 2007. (For information on the Authority, see Notes 1 and 15.)

CONSTRUCTION LOANS

In March 1999, the District, MTC and San Mateo County Transit District (“SamTrans”) entered into a Memorandum of Understanding (“MOU”), which provided additional funds for the SFO Extension project.

Pursuant to the MOU, the construction loans as of June 30, 2008, consist of funds received for the SFO Extension project costs from SamTrans for $72,000,000 and MTC for $16,500,000 and $42,000,000 from MTC for the SFO Extension project’s temporary cash requirements. The District provided $50,000,000 of its own funds to assist with the financing of the SFO Extension project costs. The terms and conditions of the MOU provide that the loans for project costs will be repaid, without interest, from the future net operating surplus generated by the SFO Extension. Such repayments of the loans for project costs from SamTrans and MTC totaling $88,500,000 plus the District’s $50,000,000, will commence after SamTrans’ capital contribution to the District’s Warm Springs Extension project is fully paid. MTC’s loan for the project’s temporary cash requirements of $42,000,000 is repaid from the District’s general funds amortized over a nine-year period ending in June 2015, with a 3% simple interest rate. In 2007, STA funds amounting to $10,000,000 received by the District in July 2006 were used to prepay a portion of the loan.

FTA CAPITAL GRANT BONDS

On February 15, 2001, the Association of Bay Area Governments (“ABAG”) issued BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, in the amount of $485,350,000. The FTA Capital Grant bonds were issued for the benefit of the District’s SFO Extension project. The proceeds were used mainly to provide additional financing for the SFO Extension project and to refund and defease $300,000,000 aggregate principal amount of the San Francisco Bay Area Transit Financing Authority Commercial Paper Notes, Series A, B, C, D, E and F. The bonds are limited obligations of ABAG and are payable from the monies coming from the Federal Full Funding Grant Agreement between the United States Department of Transportation, Federal Transit Administration and the District for the District's SFO Extension project. The bonds were fully paid during the year ended June 30, 2007.

LEASE/LEASEBACK OBLIGATION

On March 19, 2002, the District entered into a transaction to lease rail traffic control equipment (the "Network") to investors through March 19, 2042 (the "head lease") and simultaneously sublease the Network back through January 2, 2018 (the "sublease"). At the expiration of the sublease term the District has the option to purchase back the remaining head lease interest.

At closing, the Network had a fair market value of approximately $206,000,000 and a book value of $203,000,000. Under the terms of the head lease, the District received a prepayment equivalent to the net present value of the head lease obligation totaling approximately $206,000,000, of which the District paid approximately $146,000,000 to a Payment Undertaker. Under the terms of the agreement, the Payment Undertaker committed to pay the debt portion of the District's sublease obligation and to set aside funds to enable the District to exercise its purchase option of the head lease interest, if it chooses to do so. Of the remaining head lease proceeds, approximately $37,000,000 was deposited to a trust account to be used to pay the remaining equity portion of the District's sublease obligation and to set aside additional funds to enable the District to exercise its purchase option of the head lease interest, if it chooses to do so. The District received cash from the lease/leaseback transaction amounting to approximately $23,000,000. The cash gain was deferred and is being amortized over a period of 15.75 years through January 2, 2018. In accordance with generally accepted accounting principles in the United States of America, the District has reflected this transaction as a financing transaction. The District has recorded the payment to the Payment Undertaker as a deposit for sublease obligation and the deposit to the trust account as investments, and the net present value of the future sublease payments and exercise price of the purchase option as long-term debt.

Under the terms of the agreement, if the credit rating of the Payment Undertaker falls below Baa1 for Moody's Investor or BBB+ for Standard & Poor's, the District will be required to replace the Payment Undertaker with a AAA Moody's Investor and Standard & Poor's rated entity. Failure to replace the Payment Undertaker will result in a default penalty. As of June 30, 2008, the Payment Undertaker's credit rating was Aa3 for Moody's Investor and A- for Standard & Poor's.

Under this transaction, the District maintains the right to continued use and control of the Network through the end of the sublease term.

The details of the lease/leaseback obligation, including the accretion of interest, are as follows (dollar amounts in thousands):

	2008	2007
Long-term debt at beginning of year	$ 128,695	$ 158,009
Interest expense incurred during the year	8,741	10,048
Payments made towards principal	(7,783)	(28,826)
Payments made towards accumulated accretion	(5,029)	(10,536)
Total long-term debt at end of year	124,624	128,695
Lease payments due in one year	(7,298)	(12,812)
Net long-term debt at end of year	$ 117,326	$ 115,883

2002 SFO EXTENSION PREMIUM FARE BONDS (THE AIRPORT PREMIUM FARE BONDS)

On October 1, 2002, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Bonds ("Airport Premium Fare Bonds"), 2002 Series, in the amount of $56,715,000. The Airport Premium Fare Bonds were issued for the benefit of the District's SFO Extension project. The proceeds were used to finance a portion of the costs of the SFO Extension project, including all system-wide and associated improvements and expenditures related to the extension. The Airport Premium Fare Bonds are limited obligations of ABAG payable solely from and collateralized solely by amounts received from the District pursuant to a Pledge and Contribution Agreement, dated October 1, 2002, between ABAG and the District. The Airport Premium Fare Bonds are not a general obligation of ABAG. The District's obligation to make payments under the Pledge and Contribution Agreement is limited to and payable solely from and collateralized solely by a pledge of the premium fare imposed and collected by the District from passengers who board or depart the District's rapid transit system at the San Francisco International Airport station. The District's obligation to make such payments under the Pledge and Contribution Agreement is not a general obligation of the District. The payment of the principal and interest when due are insured by a financial guaranty insurance policy issued by an insurance company. At June 30, 2008, the 2002 Airport Premium Fare Bonds consist of $20,395,000 in serial bonds due from 2008 to 2022 with interest rates ranging from 2.50% to 5.00%, a $11,230,000 term bond due August 1, 2026 with an interest rate of 5.00%, and a $23,970,000 term bond due August 1, 2032 with an interest rate of 5.00%. The District is required to make sinking fund payments on the term bond due August 1, 2026 beginning on August 1, 2023 and on the term bond due August 1, 2032 beginning on August 1, 2027.

2004 SFO EXTENSION REFUNDING BONDS (THE AIRPORT REFUNDING BONDS)

On June 14, 2004, ABAG issued BART SFO Extension Refunding Bonds (FTA Capital Grant), 2004 Series A (Auction Rate Securities) with an aggregate principal amount of $66,000,000 for the benefit of the District. The Airport Refunding Bonds were issued in order to refund a portion of the ABAG BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A. The issuance of the Airport Refunding Bonds had the effect of freeing up $14,600,000 from the debt service reserve fund of the BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, and making the amount available as an additional source of cash for the payment of the SFO Extension Project expenditures. The Airport Refunding Bonds were fully paid during the year ended June 30, 2007

2005 GENERAL OBLIGATION BONDS (THE 2005 GO BONDS)

In May 2005, the District issued the General Obligation Bonds (Elections 2004), 2005 Series A with an aggregate principal amount of $100,000,000. The 2005 GO Bonds constitute a portion of the total authorized amount of $980,000,000 of general obligation bonds of the District duly authorized by at least two-thirds of the qualified voters of the District voting on a ballot measure ("Measure AA") at an election held on November 2, 2004. The 2005 GO Bonds constitute the first issue of general obligation bonds being issued pursuant to the Measure AA authorization. The 2005 GO Bonds were issued to finance earthquake safety improvements to BART facilities, including aerial trackway structures, underground trackway structures, including the Transbay Tube, and at-grade trackway structures, stations, and administrative, maintenance, and operations facilities and to finance additional retrofits to facilitate a rapid return to service after an earthquake or other disasters. The 2005 GO Bonds are general obligations of the District, payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates) levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2005 GO Bonds. At June 30, 2008, the 2005 GO Bonds consist of $47,705,000 in serial bonds due from 2008 to 2026 with interest ranging from 2.75% to 5.00%, a $7,720,000 term bond at 4.50% due in 2030 and a $11,895,000 term bond at 5.00% due in 2035. The District is required to make sinking fund payments on the term bond due in 2030 beginning in 2027 and on the term bond due in 2035 beginning in 2031.

2007 GENERAL OBLIGATION BONDS (THE 2007 GO BONDS)

On July 25, 2007, the District issued the General Obligation Bonds (Election of 2004), 2007 Series B with a principal amount of $400,000,000. The 2007 GO Bonds constitute the second issue of general obligation bonds being issued pursuant to the Measure AA authorization as discussed in the preceding paragraph regarding the 2005 GO Bonds. Similar to the 2005 GO Bonds, the 2007 GO Bonds were issued to finance earthquake safety improvements to BART facilities in the three BART Counties, including strengthening tunnels, bridges, overhead tracks and the underwater Transbay Tube. The 2007 GO Bonds are general obligations of the District payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2007 GO Bonds. At June 30, 2008, the 2007 GO Bonds consist of $135,550,000 in serial bonds due from 2009 to 2027 with interest rates ranging from 3.6% to 5.0%, and three term bonds totaling $264,450,00 due in 2032, 2035 and 2037 with interest rates ranging from 4.75% to 5.0%. The bonds maturing in 2032, 2035 and 2037 are subject to mandatory sinking fund redemptions starting in 2028, 2033 and 2036, respectively.

DEFEASED BONDS

On various dates, the District issued bonds to refund certain outstanding sales tax revenue bonds previously issued by the District. In March 1998, the District used a portion of the proceeds of the 1998 Bonds to defease certain bonds outstanding with principal amounts totaling $155,115,000. In July 2001, the District issued the 2001 Bonds and used a portion of the proceeds to defease selected bonds outstanding with principal amounts adding up to $41,175,000. In August 2005, the District refunded $349,925,000 aggregate principal amount of bonds outstanding from the proceeds of the 2005 Bonds. The bonds refunded in August 2005, consisted of $45,275,000 of the 1995 Bonds, $155,650,000 of the 1998 Bonds, $129,360,000 of the 1999 Bonds and $19,640,000 of the 2001 Bonds. In November 2006, a portion of the 2001 Bonds with an aggregate principal amount of $102,560,000 was advanced refunded from the proceeds of the 2006 Refunding Bonds.

On all defeasances, the District placed in irrevocable trusts the required amounts to pay the future debt service payments on the defeased bonds. The advance refunding met the requirement of the in-substance debt defeasance, and the defeased bonds were removed from the District's long-term debt. Accordingly the trust accounts assets and liabilities for the defeased bonds are not included in the District's financial statements.

The outstanding principal balance of the defeased bonds as of June 30, 2008 and 2007 is $407,210,000 and consists of (dollar amounts in thousands):

	2008	2007
August 2005 defeasance	$ 304,650	$ 304,650
November 2006 defeasance	102,560	102,560
	$ 407,210	$ 407,210

The District deferred, and amortized as a component of interest, the difference between the reacquisition price and the net carrying amount of the old debts and amortized over the life of the defeased bonds. The unamortized balance of deferred loss on early debt retirement is $29,596,000 at June 30, 2008 and $30,926,000 on June 30, 2007. Amortization expense on these deferred charges was $1,330,000 in fiscal year 2008 and $1,223,000 in fiscal year 2007.

ARBITRAGE BONDS

The District is subject to certain bond covenants, including the rules set forth by IRS Code Section 148a, which requires that interest earned on the proceeds of a tax exempt bond issuance does not exceed the interest expense related to those bonds, which qualifies those bonds as arbitrage bonds. Any excess interest income is subject to a 100% tax and is payable to the Federal Government. As of June 30, 2008, the District has recorded an estimated arbitrage liability amounting to $1,589,000 and $1,357,000 in 2007, which is included in other liabilities in the statements of net assets.

DEBT REPAYMENTS

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2008 (dollar amounts in thousands):

Sales Tax Revenue Bonds

Year ending June 30:	1990 Bonds Principal	1990 Bonds Interest	1998 Bonds Principal	1998 Bonds Interest	2001 Bonds Principal	2001 Bonds Interest	2005 Bonds Principal	2005 Bonds Interest	2006 Bonds Principal	2006 Bonds Interest	2006 Refunding Bonds Principal	2006 Refunding Bonds Interest
2009	$ –	$ 1,942	$ 5,895	$ 7,480	$ –	$ 7,310	$ 14,295	$ 14,884	$ –	$ 3,131	$ 190	$ 2,200
2010	–	1,942	6,205	7,139	–	7,310	14,965	14,227	–	3,131	195	2,200
2011	13,870	1,006	1,625	7,053	–	7,310	6,840	14,005	–	3,131	205	2,200
2012	14,905	–	3,325	6,879	–	7,310	8,225	13,593	–	3,131	210	2,200
2013	–	–	3,675	6,686	2,020	6,975	9,010	13,242	–	3,131	5,885	2,111
2014-2018	–	–	13,155	31,617	8,675	32,365	74,145	56,243	2,325	15,476	7,900	9,060
2019-2023	–	–	63,375	22,573	5,920	28,396	45,870	40,415	8,065	14,185	16,355	7,483
2024-2028	–	–	51,335	6,308	7,595	21,860	84,590	26,797	9,720	11,765	22,420	5,761
2029-2033	–	–	8,960	–	9,755	13,456	51,180	7,843	17,995	7,675	27,730	3,547
2034-2038	–	–	–	–	9,800	2,980	16,670	427	26,810	1,773	26,840	785
Thereafter	–	–	–	–	–	–	–	–	–	–	–	–
	$ 28,775	$ 4,890	$ 157,550	$ 95,735	$ 43,765	$ 135,272	$ 325,790	$ 201,676	$ 64,915	$ 66,529	$ 107,930	$ 37,547

Year ending June 30:	Construction Loans Principal	Construction Loans Interest	Lease/Leaseback Obligation Principal	Lease/Leaseback Obligation Interest
2009	$ 5,000	$ 1,260	$ 712	$ 6,586
2010	8,000	1,110	17,086	9,116
2011	8,000	870	5,192	2,923
2012	8,000	630	–	257
2013	8,000	390	–	508
2014-2018	5,000	150	43,747	80,559
2019-2023	–	–	36,906	5,820
2024-2028	–	–	–	–
2029-2033	–	–	–	–
2034-2038	–	–	–	–
Thereafter	88,500	–	–	–
	$ 130,500	$ 4,410	$ 103,643	$ 105,769

Year ending June 30:	2002 SFO Extension Premium Fare Bonds Principal	2002 SFO Extension Premium Fare Bonds Interest	2005 General Obligation Bonds Principal	2005 General Obligation Bonds Interest	2007 General Obligation Bonds Principal	2007 General Obligation Bonds Interest	Total Principal	Total Interest
2009	$ 640	$ 2,693	$ 25,960	$ 1,955	$ –	$ 19,252	$ 52,692	$ 68,693
2010	715	2,672	870	1,856	20,490	18,556	68,526	69,259
2011	795	2,647	895	1,829	5,240	18,301	42,662	61,275
2012	875	2,617	920	1,801	405	18,270	36,865	56,688
2013	965	2,583	950	1,770	900	18,237	31,405	55,633
2014-2018	6,455	12,021	5,265	8,297	13,450	89,861	180,117	335,649
2019-2023	9,950	9,916	6,440	7,012	33,435	84,448	226,316	220,248
2024-2028	14,580	6,779	6,405	5,163	61,630	72,241	258,275	156,674
2029-2033	20,620	2,285	7,720	2,960	101,520	51,292	245,480	89,058
2034-2038	–	–	11,895	417	162,930	18,009	254,945	24,391
Thereafter	–	–	–	–	–	–	88,500	–
	$ 55,595	$ 44,213	$ 67,320	$ 33,060	$ 400,000	$ 408,467	$ 1,485,783	$ 1,137,568

8. Risk Management

The District is partially self-insured for workers' compensation, public liability and property damage claims. The self-insured retention for workers' compensation is $4,000,000 per accident and the limit of liability is $10,000,000. The self-insured retention for public liability and property damage is $5,000,000 for any one occurrence. Claims in excess of self-insured retentions are covered up to a total of $95,000,000 by insurance policies. There have been no settlement amounts during the past three years that have exceeded the District's insurance coverage.

The self-insurance programs are administered by independent claims adjustment firms. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities are discounted at a 5% rate and are based, in part, upon the independent adjustment firms' estimate of reserves necessary for the settlement of outstanding claims and related administrative costs, and include estimates of claims that have been incurred but not yet reported, including loss adjustment expenses. Such reserves are estimated by professional actuaries through March 31 and are subject to periodic adjustments as conditions warrant.

The estimated liability for insurance claims at June 30, 2008 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents occurring through that date. At June 30, 2008 and 2007, the estimated amounts of these liabilities were $28,246,000 and $28,702,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal year are as follows (dollar amounts in thousands):

	2008	2007
Liabilities at beginning of year	$ 28,702	$ 28,354
Current year claims and changes in estimates	8,741	8,625
Payments of claims	(9,197)	(8,277)
Liabilities at the end of year	28,246	28,702
Less current portion	(8,478)	(9,152)
Net noncurrent portion	$19,768	$ 19,550

9. Federal Capital Contribution and Operating Financial Assistance

The U.S. Department of Transportation and other Federal agencies provide capital funding to the District for construction projects, planning and technical assistance. Cumulative information for grants which were active during the year ended June 30, 2008 and 2007 are summarized as follows (dollar amounts in thousands):

	2008	2007
Total approved project costs	$ 2,120,813	$ 2,009,500
Cumulative amounts of project costs incurred and earned	$ 1,123,948	$ 1,086,170
Less: approved federal allocations received	(1,113,839)	(1,075,365)
Capital grants receivable – Federal	$ 10,109	$ 10,805

The District's fleet replacement program consisting of construction for the A, B, C1 and C2 fleet replacement is scheduled to begin in 2013. To set aside funding for this future need, the District and MTC, on May 24, 2006, entered into the BART Car Replacement Funding Exchange Agreement. Under the agreement, MTC agrees to program federal funds to eligible BART projects that are ready to be delivered within the year of MTC's programming action. In exchange for MTC programming funds for ready-to-go BART projects, the District will deposit an equal amount of local unrestricted funds into a restricted account established to fund BART's car replacement program. MTC is the exclusive administrator of the restricted account and any withdrawal of funds from the account requires prior approval from the MTC Commission and the District's Board. In accordance with the agreement, MTC allocated Federal Section 5307 Grants for $22,681,000 in fiscal year 2008 and $22,680,000 in fiscal year 2007 to fund the District's preventive maintenance expenses. Accordingly, the District remitted to MTC the equivalent amount of its own funds, which was deposited by MTC to the restricted account. The federal grant is shown as nonoperating revenue – operating financial assistance and the District's remittance to MTC is shown as nonoperating expense in the District's financial statements.

10. State and Local Operating and Capital Financial Assistance

The District is eligible to receive local operating and capital assistance from the Transportation Development Act Funds ("TDA"). There was no TDA operating or capital assistance received in fiscal years 2008 or 2007.

The District may be entitled to receive state operating and capital assistance from the State Transit Assistance Funds ("STA"). These funds are allocated by MTC based on the ratio of the District's transit operation revenue and local support to the revenue and local support of all state transit agencies. The District received STA operating allocation of $21,726,000 in fiscal year 2008, and $21,182,000 in fiscal year 2007. The District also received an STA capital allocations amounting to $1,170,000 in fiscal year 2004 and $150,000 in fiscal year 2008, of which $181,000 was earned during fiscal year 2008 and $99,000 in fiscal year 2007.

The District receives Paratransit funds provided to cities and transit operators from Alameda County Measure B funds to be used for services aimed at improving mobility for seniors and persons with disabilities. The Alameda County Transportation Improvement Authority ("ACTIA") is the administrator of Measure B funds. The District's revenues in fiscal 2008 and 2007 that relate to the Measure B funds were $1,644,000 and $1,609,000, respectively.

On February 28, 2007, the District, SamTrans, and MTC entered into a Tri-Party Financial Agreement establishing the new operational and financial arrangement regarding the BART San Francisco International Airport Extension. To fund the operating costs of the SFO Extension, the agreement provided that (1) the District will receive up-front funding of $24,000,000 from MTC and $32,000,000 from SamTrans from their shares of Proposition 1B funds; (2) the District will also receive 2% of the San Mateo County half cent sales tax, Measure A, which was reauthorized by the voters of San Mateo County in 2004, for 25 years beginning in fiscal year 2009; this amount is currently equal to approximately $1,200,000 per year; and (3) MTC shall allocate to the District additional STA revenue-based funds beginning in fiscal year 2009, which would otherwise be available for allocation to SamTrans as a result of the completion of the Traffic Congestion Relief Program projects, in an amount of $801,000 annually. The above funds will be used first to cover any operating deficit on the SFO Extension and then to complete SamTrans' funding commitment of $145,000,000 to the District's Warm Springs Extension Project. In accordance with the Tri-Party Financial Agreement, the District received in fiscal year 2008, cash payments amounting to $8,069,000 from SamTrans and $1,386,000 from MTC representing STA funds reallocated from Sam Trans to BART, of which $485,000 was received in November 2008. These payments were deposited in a reserve account maintained by the District as required by the agreement, including interest earnings. As of June 30, 2008, the balance of the reserve account is as follows (dollar amounts in thousands):

	2008
Received and accrued in fiscal year 2008	$ 9,455
Add interest earnings	4
Total	$ 9,459
Less: amount used to cover SFO Extension operating shortfall	(5,983)
Balance of reserve account as of June 30, 2008	$ 3,476

The upfront funding of $24,000,000 from MTC was received in 2008 in the form of a capital allocation funded by Regional Measure 2 (RM2) revenues. For the purpose of the Tri-Party Agreement, the District is required to make a deposit to the reserve account in an amount equal to the capital reimbursement received from MTC/RM2 revenues. There was no capital reimbursement received in fiscal year 2008, hence the District did not make any deposits to the reserve account. In fiscal year 2007, the operating costs in excess of fare revenues identified to the SFO Extension was $10,205,000 which was funded by SamTrans ($4,701,000) and by District's own funds ($5,504,000). With the availability of the MTC/RM2 revenues, the District will be reimbursed for its share of $5,504,000.

11. Employees' Retirement Benefits

PLAN DESCRIPTION

All employees are eligible to participate in the Public Employees' Retirement Fund (the "Fund") of the State of California's Public Employees' Retirement System ("CalPERS") under the Miscellaneous Plan and the Safety Plan of the San Francisco Bay Area Rapid Transit District. The Fund is an agent multiple-employer defined-benefit retirement plan that acts as a common investment and administrative agent for 2,626 local public agencies and school districts within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and District contractual agreements.

Copies of CalPERS' annual financial report may be obtained from their Executive Office by writing or calling the Plan: California PERS, P.O. Box 942709, Sacramento, CA 94229-2709, (916) 326-3420. A separate report for the District's plan is not available.

FUNDING POLICY AND ANNUAL PENSION COST

The Plan's funding policy provides for periodic District contributions at actuarially-determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by contractual agreements. The individual entry age normal cost method is used to determine the normal cost. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. Beginning on July 1, 1997, the unfunded actuarial accrued surplus or liability (past service liability) is amortized as a level percentage of future covered payroll over a closed period of 13 years for the Miscellaneous Plan and the Safety Plan.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2008 and 2007 was $233,027,000 and $223,792,000, respectively. The District's 2008 and 2007 payroll for all employees was $266,229,000 and $256,377,000, respectively. The District, due to collective bargaining agreements, also reimburses the employees for their contributions, which are 9% for public safety personnel and 7% for miscellaneous covered employees.

The annual required contributions for fiscal year 2008 and 2007 were determined by an actuarial valuation of the Plans as of June 30, 2005 and 2004, respectively. The contribution rates were 9.850% in 2008 and 9.317% in 2007 for the Miscellaneous Plan and 32.249% in 2008 and 29.942% in 2007 for the Safety Plan.

The three-year trend information for the Fund of the actuarially required employer contribution is as follows (dollar amounts in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed (%)	Net Pension Obligation
Miscellaneous Plan:	June 30, 2006	$ 17,849	100	$ –
	June 30, 2007	19,382	100	–
	June 30, 2008	21,236	100	–
	June 30, 2006	4,925	100	–
Safety Plan:	June 30, 2007	4,786	100	–
	June 30, 2008	5,622	100	–

FUNDED STATUS AND FUNDING PROGRESS OF THE MISCELLANEOUS PLAN

As of June 30, 2007, based on CalPERS most recent actuarial report, the Miscellaneous Plan is 96.7% funded. The actuarial accrued liability for benefits was $1,307,372,000, and the actuarial value of assets was $1,263,851,000, resulting in an unfunded actuarial accrued liability (UAAL) of $43,521,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $210,109,000, and the ratio of the UAAL to the covered payroll was 20.7%.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI), following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

FUNDED STATUS AND FUNDING PROGRESS OF THE SAFETY PLAN

As of June 30, 2007, based on CalPERS most recent actuarial report, the Safety Plan is 79.5% funded. The actuarial accrued liability for benefits was $151,616,000, and the actuarial value of assets was $120,493,000, resulting in an unfunded actuarial accrued liability (UAAL) of $31,123,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $16,172,000, and the ratio of the UAAL to the covered payroll was 192.4%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL ASSUMPTIONS AND METHODS

CalPERS uses the rate stabilization methodologies in its actuarial valuations which have been shown to be very effective in mitigating rate volatility. A summary of principal assumptions and methods used by CalPERS to determine the District's annual required contributions to the Miscellaneous Plan and Safety Plan is shown below:

Valuation Date	June 30, 2007	June 30, 2005	June 30, 2004
Actuarial cost method	Entry age actuarial cost method	Entry age actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average remaining period	Closed; 14 years as of the valuation date for Miscellaneous Plan; and 23 years for the Safety Plan	Closed; 21 years as of the valuation date for Miscellaneous Plan; and 24 years for the Safety Plan	Closed; 18 years as of the valuation date for Miscellaneous Plan; and 24 years for the Safety Plan
Asset valuation method	15 year smoothed market	15 year smoothed market	15 year smoothed market
Investment rate of return	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected salary increases	3.25% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.25% to 13.15% for the Safety Plan	3.25% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.25% to 13.15% for the Safety Plan	3.25% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.25% to 13.15% for the Safety Plan
Inflation	3.00%	3.00%	3.00%
Payroll growth	3.25%	3.25%	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

12. Money Purchase Pension Plan

Most District employees participate in the Money Purchase Pension Plan, which is a supplemental retirement defined contribution plan. In January 1981, the District's employees elected to withdraw from the Federal Social Security System ("FICA") and established the Money Purchase Pension Plan. The District contributes an amount equal to 6.65% of eligible employees' annual compensation (up to $29,700 after deducting the first $133 paid during each month) up to a maximum annual contribution of $1,868. The non-represented employees receive an additional contribution equal to 1.627% of their annual compensation. The annual compensation limit subject to the additional contribution is established by the Internal Revenue Code Section 401(a) (17). Each employee's account is available for distribution upon such employee's termination.

The District's total expense and funded contribution for this plan for the years ended June 30, 2008 and 2007 were $6,811,000 and $6,681,000, respectively. The Money Purchase Pension Plan assets at June 30, 2008 and 2007 (excluded from the accompanying financial statements) per the plan administrator's unaudited report were $260,878,000 and $282,038,000, respectively. At June 30, 2008, there were approximately 256 (246 in 2007) participants receiving benefits under this plan.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing or calling: BART Investments Plans Committee, 300 Lakeside Drive, Oakland, California 94612, (510) 464-6238.

13. Other Postemployment Benefits

In addition to the retirement benefits described in Notes 11 and 12, and specified in the District's contractual agreements, the District provides other postemployment benefits ("OPEB") to employees, which include medical benefits to retirees and surviving spouses, retiree life insurance, survivor dental and vision benefits, and medical benefits to survivors of active employees. Most employees who retire directly from the District or their surviving spouses are eligible for medical benefits if the employee retires at or after age 50 with a minimum of 5 years of service with the District, elects to take an annuity from CalPERS and makes a timely election of retiree medical.

In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new GASB statement requires the District to change its accounting for OPEB from pay-as-you-go to an accrual basis. If an employer elects to fund its OPEB liability, GASB 45 requires that for contributions to be recognized as an offset to the employer's actuarial required contribution, the contributions must be paid out in benefits or irrevocably transferred to a trust or an equivalent arrangement, and legally protected from creditors of the employer. The District implemented the requirements of Statement No. 45 beginning in fiscal year 2008.

On May 18, 2004, the District created the Retiree Health Benefit Trust for the San Francisco Bay Area Rapid Transit District (the "Trust"). The purpose of establishing the Trust is to facilitate the provision of medical benefits and other health and welfare benefits ("retiree medical benefits") for the qualifying retirees of the District; to provide the means for financing the costs and expenses of operating and administering such benefits; to hold Trust assets for the sole and exclusive purpose of providing benefits to participants and beneficiaries; and to defray the reasonable expenses of administering the Trust and designated plans. Assets placed into the Trust cannot be used for any other purposes and are not available to satisfy general creditors of the District. Under California state law, the restrictions on the use of any proceeds from liquidation of the Trust are significant enough to render the Trust effectively irrevocable. The Trust is administered by one or more Trustees appointed by the District's Board of Directors. Currently, the Board has appointed the District's Controller-Treasurer as the Trustee. The Trust issues a publicly available audited financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to Retiree Health Benefit Trust, San Francisco Bay Area Rapid Transit District, 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

Currently, the Trust covers the funding only for the "retiree medical benefits" which include retiree health medical benefits and the survivors benefits provided to widows and widowers of retirees. It does not fund the "additional OPEB" which include the retiree life insurance premiums and the survivors dental and vision benefits and the medical liability from survivors of active employees. The District has not yet made the decision whether the additional OPEB will be incorporated in the existing Trust or whether a new and separate trust will be established.

Basis of Accounting. The financial statements of the Trust are prepared using the accrual basis of accounting. Beginning with fiscal year 2007, the Trust implemented the GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which established the accounting and financial reporting standards for plans that provide OPEB. The Trust recognizes contributions from the District in accordance with the provisions contained on the District collective bargaining agreements, as described briefly in the following discussion.

Method Used to Value Investments. Investments are reported at fair value as determined by the financial institutions which have custody of the investments based on quoted market prices.

Funding Policy and Long Term Contract for Contributions. The District's current collective bargaining agreements with its unions ("CBA") describe the District's funding commitments to the Trust. Beginning fiscal year 2008, the District will fund a "ramp up" (increasing) percentage of the "full" annual required contribution ("ARC") in addition to the pay-as-you-go amount every year for the following six years. Including fiscal years 2007 and 2008, this "ramp-up" contribution funds an eight-year period covering fiscal years 2007 through 2013. The CBAs include the baseline "ramp-up" percentages, which is the minimum amount that the District is committed to contribute to the Trust during the "ramp-up" period. The District shall commission an actuarial study of the retiree medical insurance plan liabilities and funding needs, including the ARC, every year. The revised "ramp-up" percentage shall be the basis of the District's contribution to the Trust, except when it is less than the baseline "ramp-up" percentage. In addition, the District will, at a minimum, contribute into the Trust a lump sum make up payment no later than June 30, 2009, reflecting the amounts it would have contributed for fiscal years 2006 and 2007. The lump sum makeup payment is equal to the sum of 3.36% of fiscal year 2007 payroll and 3.22% of fiscal year 2006 payroll, which is actuarially calculated to be $14,629,000. Beginning fiscal year 2013, the District shall, at minimum, contribute to the Trust each pay period an amount equal to the full GASB compliant ARC. The CBAs further state that no retiree health insurance premiums will be paid from the Trust prior to July 1, 2013 and that effective July 1, 2013, the District shall direct the Trustee of the Trust to pay the premiums from the Trust.

Funded Status.

The actuarially calculated ARC for fiscal year 2008, as a percent of covered payroll for the year, are 16.66% for retiree medical benefits and 1.06% for additional OPEB, which amounted to $38,839,000 and $2,471,000, respectively. In fiscal year 2008, the District contributed cash to the Trust amounting to $8,136,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. In addition on behalf of the Trust, the District made payments in fiscal year 2008 on a pay-as-you-go basis, net of retirees' and surviving spouses' share, medical insurance premiums totaling $11,844,000 for 1,388 retirees and surviving spouses ($10,517,000 for 1,381 retirees and surviving spouses in fiscal year 2007) and life insurance premiums amounting to $57,000. The District does not charge any administration cost to the Trust. Currently, the retiree pays $79.57 per month and the survivor $15.00 per month for their share of the health care premium; the balance is paid by the District. The changes in the net OPEB obligation for fiscal year 2008 are as follows (dollar amounts in thousands):

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Retiree Medical Benefits	$ 38,839	51%	$ 18,859
Additional OPEB	2,471	2%	2,414

At June 30, 2008, assets held in the Trust included investment in money market mutual funds, U.S. Treasury obligations, corporate obligations, foreign obligations, foreign stocks, equity mutual funds and domestic common stocks with an aggregate fair value of $54,879,000 ($48,193,000 in 2007). These investments are included in the District's financial statements and are restricted to use for payment of retiree medical benefits.

Funded Status and Funding Progress of the Retiree Medical Plan. As of June 30, 2007, based on Mercer's most recent actuarial report, the Retiree Medical Plan is 10.5% funded. The actuarial accrued liability for benefits was $418,100,000, and the actuarial value of assets was $43,900,000, resulting in an unfunded actuarial accrued liability (UAAL) of $374,200,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $230,800,000, and the ratio of the UAAL to the covered payroll was 162.1%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the current year's funded progress (since this is the first year GASB 45 was implemented) and will eventually present three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress of the Additional OPEB Plan. As of June 30, 2007, based on Mercer's most recent actuarial report, the Additional OPEB Plan is zero per cent funded. The actuarial accrued liability for benefits was $20,000,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $20,000,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $230,800,000, and the ratio of the UAAL to the covered payroll was 8.7%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the current year's funded progress (since this is the first year GASB 45 was implemented) and will eventually present three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL ASSUMPTIONS AND METHODS

The latest OPEB actuarial valuation was performed by Mercer in December 2007 using District data as of June 30, 2007. A summary of principal assumptions and methods used by Mercer to determine the District's annual required contributions to the OPEB plans is shown below:

Valuation Date	June 30, 2007
Actuarial cost method	Entry age actuarial cost method
Amortization method	Closed, Level percent of payroll
Remaining amortization period	27 years
Asset valuation method	At market value
Discount rate	6.75% for the retiree medical plan and 4.25% for the additional OPEB
Projected salary increases	CalPERS assumptions from the June 30, 2004 pension valuation with a minimum increase of 3.75%
Inflation	3.00%
Payroll growth	3.75%
Health care cost trend rate	5% with an ultimate trend rate of 5.0% to be reached in 2015

14. Board of Directors' Expenses

Total Directors' expenses, consisting of travel and other business related expenses for the years ended June 30, 2008 and 2007 amounted to $36,000 and $38,000, respectively.

15. Transit Financing Authority

The Joint Exercise of Powers Agreement (the "Agreement"), dated August 1, 1991, between the District and MTC provided for the creation of the Transit Financing Authority (the "Authority"), a public instrumentality of the State of California. The initial term of the Agreement was for ten years, unless extended or earlier terminated. On May 1, 1998, the term of the Agreement was extended to August 1, 2010. The Authority was formed for the purpose of providing financing and contracting for public transit improvements, including the refinancing of prior indebtedness and acquiring, selling and financing public capital improvements, working capital, liability and other insurance needs, and for the specific purpose of assisting in financing the District's East-Bay and West-Bay extensions. The Authority's financial information is presented as a blended component unit of the District's financial statements because the Authority provides services almost exclusively to the District.

The governing board of the Authority consists of two members each from the District and MTC. Neither the District nor MTC is responsible for any debt, liabilities or obligations of the Authority.

At the end of the term or upon the earlier termination of the Agreement, all assets of the Authority shall be distributed to the two participants, and any surplus money on hand shall be returned to these participants in proportion to their respective contributions to the Authority.

A summary of the amount and percentage of the Authority's total assets, total liabilities and total net assets as compared with the District is as follows (dollar amounts in thousands):

	2008	2007
Authority's total assets		
Amount	$ 58,500	$ 64,910
As a % of District's total assets	0.9%	1.1%
Authority's total liabilities		
Amount	$ 58,500	$ 64,910
As a % of District's total liabilties	3.1%	4.6%
Authority's total net assets		
Amount	$ –	$ –

The Authority issues an annual audited financial report that includes financial statements and required supplementary information. This report may be obtained by contacting the District's Controller-Treasurer at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

16. Related Organizations and Joint Venture Projects

CAPITOL CORRIDOR JOINT POWERS AUTHORITY

The Joint Exercise of Powers Agreement dated December 31, 1996, between the District and five other transportation authorities in surrounding counties ("Agencies") provided for the creation of the Capitol Corridor Joint Powers Authority ("Capitol Corridor"), a public instrumentality of the State of California. Capitol Corridor was formed for the purpose of administering and managing the operation of the Capitol Corridor Rail Service as part of the California intercity passenger rail system. The District is the managing agency of Capitol Corridor and in that capacity shall provide all necessary administrative support to Capitol Corridor. Capitol Corridor entered into an Interagency Transfer Agreement with the State of California and assumed administration and operation commencing on July 1, 1998. The initial term of the Interagency Transfer Agreement was for three years beginning July 1, 1998, and was extended for three additional years effective July 1, 2001. In 2004, State legislation was enacted that eliminated the sunset date of the Interagency Transfer Agreement, which now exists indefinitely.

The governing board of Capitol Corridor consists of six members from the District and two members from each of the five other Agencies. Neither the District nor the other Agencies are responsible for any debt, liabilities and obligations of Capitol Corridor and the District would not be entitled to any of Capitol Corridor's net assets should it terminate.

The District charged Capitol Corridor a total of $4,482,000 for marketing and administrative services during 2008 and $4,104,000 during 2007. In addition, Capitol Corridor reimburses the District for its advances for capital project expenditures and other operating expenses. Reimbursements for expenses incurred by the District on behalf of and in providing services to Capitol Corridor are netted against the corresponding expense in the statements of revenues, expenses and changes in net assets. Unreimbursed expenses and capital project costs from Capitol Corridor amount to $2,384,000 and $3,602,000 as of June 30, 2008 and 2007, respectively. All unreimbursed expenses are included as current receivables and other assets in the statements of net assets. As the District has no ownership involvement or ongoing financial interest or responsibility in Capitol Corridor, its financial statements include only amounts related to the services it provides to Capitol Corridor.

TECHNOLOGY REINVESTMENT PROJECT

In 1994, The District and the joint venture of Hughes Transportation Control Systems, Inc. (Hughes), and Morrison Knudsen Train Control, Inc. (HMK) entered into a memorandum of understanding (MOU) to form an alliance (Alliance) to develop a cost-effective, highly reliable and safe train control system for passenger and freight-carrying trains. The project is more commonly known as the Advanced Automatic Train Control (AATC) project. During fiscal year 1998, the Alliance was reorganized. Hughes and HMK withdrew and were replaced by Harmon Industries, Inc. (Harmon). In August 1998, a MOU was executed between the District and Harmon which replaced the 1994 MOU between the District and the joint venture of Hughes and HMK. In February 1998, Harmon and the District executed Contract no. 49GB-110 and the document incorporated the MOU that was later amended in August 1998 to reflect the replacement of HMK by Harmon. In 2000, Harmon was purchased by GE Transportation Systems, and Harmon became known as GE Transportation Systems, Global Signaling.

The AATC project has three phases which are: Phase 1, the prototype phase, which demonstrates the feasibility of the technical concepts through a demonstration of the technology at BART's Hayward test track; Phase 2, the development phase, which implements the pilot system at two BART train stations and on ten control cars to demonstrate the safety of the system; and Phase 3, the implementation phase, which implements the AATC system on eight additional BART train stations and 289 control cars, including training of BART personnel, creation of manuals and supply of spare parts.

Phase 1 was completed in 1996, while work on Phase 2 and Phase 3 is still in progress. Phase 1 and Phase 2 were partially funded by the Technology Reinvestment Project managed by the Advanced Research Projects Agency (ARPA). The Alliance handled the disbursements for project costs paid out of the ARPA grant. The District's participation in Phase 1 and Phase 2 include in-kind contributions, which consisted primarily of cost of vehicles and infrastructure use and labor and other direct costs, totaling $25,848,000, of which $948,000 was reimbursed by the Alliance. Additional funding for Phase 2 and Phase 3 came from the federal allocations of $66,844,000, State grants of $4,728,000, local agency contributions of $2,389,000 and the District's own funds of $36,859,000. The total project expenditures through June 30, 2008 for Phase 2 and Phase 3 amount to $84,980,000 ($81,674,000 in 2007).

In June 2002, several issues that needed to be resolved to finish the project were discovered in the design. The contractor submitted notices of potential claim in April 2003. In June 2006, after over three years of unsuccessful negotiations on these claims, BART filed a Complaint with the United States District Court, Northern District of California for Rescission, Breach of Contract, Termination of Contract, Specific Performance and Declaratory Relief.

EAST BAY PARATRANSIT CONSORTIUM

In 1994, the District and the Alameda-Contra Costa Transit District ("AC Transit") executed an agreement establishing the East Bay Paratransit Consortium (the "Consortium"). The purpose of the Consortium is to enable the District and AC Transit to jointly provide paratransit services in the overlapping service area of the District and AC Transit. Revenues and expenditures for the Consortium are split 31% and 69% between the District and AC Transit, respectively, and the District's financial statements reflect its portion of revenues and expenditures as operating activities. The District supported the project primarily through its own operating funds, with some financial assistance from Alameda County Measure B funds (see Note 10). The District has no equity interest in the Consortium.

17. Commitments and Contingencies

LITIGATION

The District is involved in various lawsuits, claims and disputes, which for the most part are normal to the District's operations. It is the opinion of the District's management that the costs that might be incurred in the disposition of these matters, if any, would not materially affect the District's financial position.

LEASE COMMITMENTS

The District leases certain facilities under operating leases with original terms ranging from one to 50 years with options to renew.

Future minimum rental payments under noncancelable operating leases with initial or remaining lease terms of over one year at June 30, 2008 are as follows (dollar amounts in thousands):

Year ending June 30:	Operating Leases
2009	$ 11,030
2010	10,911
2011	10,768
2012	10,588
2013	10,417
2014-2018	21,039
2019-2023	12,697
2024-2028	12,500
2029-2033	12,500
2034-2038	12,500
2039-2043	12,500
2044-2048	12,500
2049-2051	7,292
Total minimum payments	$ 157,242

Rent expenses under all operating leases were $11,013,000 and $10,775,000 for the years ended June 30, 2008 and 2007, respectively.

FRUITVALE DEVELOPMENT CORP.

On October 1, 2001, the District entered into a ground lease agreement with Fruitvale Development Corporation ("FDC") pertaining to 1.8 acres of land for the purpose of constructing thereon portions of a mixed-use development project commonly known as the Fruitvale Transit Village, which was planned to consist of approximately 250,000 square feet of commercial, community service and residential improvements. The lease agreement was effective December 9, 2003, the regular term date, which was also the opening date, and continues through January 31, 2077.

The terms of the lease require FDC to pay the District a Base Rent and a Percentage Rent. The Base Rent is a fixed amount determined at the inception of the lease subject to periodic CPI adjustments. Percentage Rent is calculated equal to 15% of annual net revenues, as defined in the ground lease agreement.

The District provided FDC a Rent Credit with an initial amount of $7,247,000, to acknowledge its assistance in obtaining grants for the construction of a Replacement BART Commuter Parking Garage near the Fruitvale Transit Village. The Rent Credit earns interest on the outstanding balance at simple interest based on the prime rate and can only be applied to satisfy the Base Rent. Based on the agreement, FDC shall not be under any obligation to make any cash payment to the District for Base Rent at any time that Rent Credit still has a positive balance. Changes in the Rent Credit for fiscal years 2008 and 2007 are summarized as follows (dollar amounts in thousands):

	2008	2007
Rent Credit at beginning of year	$ 8,469	$ 7,998
Annual base rent applied against the credit	(98)	(98)
Interest credit during the year	452	569
Rent Credit at end of year	$ 8,823	$ 8,469

SALE/LEASEBACK AND LEASE/LEASEBACK OBLIGATIONS

The District has entered into two leaseback obligations relating to rail traffic control equipment and rail cars.

On March 30, 1995, the District entered into an agreement with a Swedish corporation to sell 25 newly manufactured C-2 rail cars for $50,383,000 and simultaneously entered into an agreement to lease them back. The lease agreement was effective on the closing date of September 15, 1995 and continues through January 15, 2011. The District recorded a deferred gain on the sale of approximately $2,015,000, which is equal to the amount of cash received on the sale.

On March 19, 2002, the District entered into a transaction to lease rail traffic control equipment (the “Network”) to investors through March 19, 2042 and simultaneously sublease the Network back through January 2, 2018. The District received a head lease payment of $206,000,000 which is equivalent to the fair market value of the Network at closing. To fulfill its sublease obligations, the District paid approximately $146,000,000 to a payment undertaker and deposited $37,000,000 to a trust account. The District received cash from this lease/leaseback transaction amounting to approximately $23,000,000.

On May 17, 2006, President Bush signed into law an act entitled the “Tax Increase Prevention and Reconciliation Act of 2005” (the “Tax Act”). Among other provisions, the Tax Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the District). The District currently is evaluating this legislation. At this time, it is unclear to what extent the excise tax imposed by the Tax Act is applicable to the District lease transactions and, if so, the magnitude of the District’s excise tax liability, if any, with respect to the District lease transactions.

18. Subsequent Event

The recent turmoil in the financial market has been unprecedented. As of October 31, 2008 the estimated (unaudited) fair value of the Trust’s total investments declined by approximately 28% compared to the estimated fair value at June 30, 2008. The decline in the fair value of investments could have a significant impact to subsequent actuarial valuations, which determine the District’s annual required contributions to the Trust.

With respect to the District’s investment portfolio, there was no similar decline in fair value due to the primary investment objectives, safety of principal and liquidity, of the District’s investment policy.

Employees' Retirement Benefits Schedules Of Funding Progress

(dollar amounts in thousands)

Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Status (%)	Annual Covered Payroll	UAAL as a Percentage of Payroll (%)
6/30/05	$ 1,138,543	$ 1,071,223	$ 67,320	94.1	$ 214,698	31.4
6/30/06	1,227,056	1,162,531	64,524	94.7	211,146	30.6
6/30/07	1,302,372	1,263,851	43,521	96.7	210,109	20.7

Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Status (%)	Annual Covered Payroll	UAAL as a Percentage of Payroll (%)
6/30/05	$ 129,350	$ 98,677	$ 30,674	76.3	$ 15,221	201.5
6/30/06	140,160	108,568	31,592	77.5	15,155	208.5
6/30/07	151,616	120,493	31,123	79.5	16,172	192.4

Other Postemployment Benefits Schedules Of Funding Progress

(dollar amounts in thousands)

Retiree Medical Benefits

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payrolll (%)
6/30/07	$ 418,100	$ 43,900	$ 374,200	10.5	$ 230,800	162.1

Additional OPEB

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payrolll (%)
6/30/07	$ 20,000	$ -	$ 20,000	0.0	$ 230,800	8.7

Sources and Uses of Operating Funds (Unaudited)

	FY 2008		FY 2007	
	AMOUNT (in thousands)	PERCENT	AMOUNT (in thousands)	PERCENT
Sources of Operating Funds				
Transaction & Use Sales Tax	$ 202,632	30%	$ 198,805	32%
Passenger Fares	309,457	46%	282,080	45%
Property Tax	28,955	4%	27,419	4%
Other:				
Investment Income & Other Operating Revenues	32,332	5%	30,724	5%
Construction Funds (Capitalized Costs)	36,720	6%	32,285	5%
Financial Assistance	57,616	9%	55,546	9%
Total – Other	126,668	20%	118,555	19%
Total Sources of Operating Funds	$ 667,712	100%	$ 626,859	100%
Uses of Operating Funds				
Maintenance	$ 200,306	30%	$ 178,839	29%
Transportation	154,720	24%	142,989	23%
General Administration	136,538	20%	117,962	18%
Police Services	44,665	7%	41,442	7%
Construction & Engineering	19,772	3%	18,160	3%
Other:				
Capital Designation	16,633	2%	26,337	4%
Debt Service Allocation	65,930	10%	70,325	11%
Contribution for BART Car Replacement Funding Exchange Program	22,681	3%	22,680	4%
Increase (Decrease) in Net Assets – General Fund	6,467	1%	8,125	1%
Total – Other	111,711	16%	127,467	20%
Total Uses of Operating Funds	$ 667,712	100%	$ 626,859	100%

	FY 2008		FY 2007	
	AMOUNT (in thousands)	PERCENT	AMOUNT (in thousands)	PERCENT
Sources of Capital Funds				
District	$ 109,235	43%	$ 69,900	48%
Federal	38,898	15%	35,647	24%
State	48,232	19%	16,564	11%
Local	56,657	23%	24,363	17%
Total Sources of Capital Funds	$ 253,022	100%	$ 146,474	100%
Capital Expenditures				
Construction:				
Line	$ 135,996	54%	$ 66,713	46%
Systemwide	68,861	27%	47,589	32%
Support Facilities	3,144	1%	1,929	1%
Total – Construction	208,001	82%	116,231	79%
Equipment:				
Train Control	9,191	4%	6,852	5%
Transit Vehicles	7,320	3%	4,477	3%
Automatic Fare Collections	8,349	3%	8,158	6%
Management Information Systems	3,773	2%	3,250	2%
Other Equipment	11,248	4%	6,027	4%
Total – Equipment	39,881	16%	28,764	20%
Studies & Other	5,140	2%	1,479	1%
Total Capital Expenditures	$ 253,022	100%	$ 146,474	100%

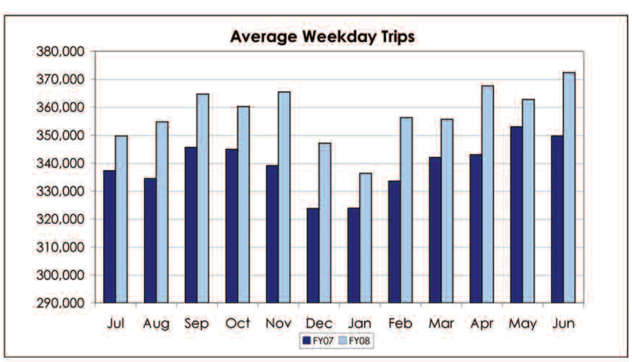
Performance Highlights (Unaudited)

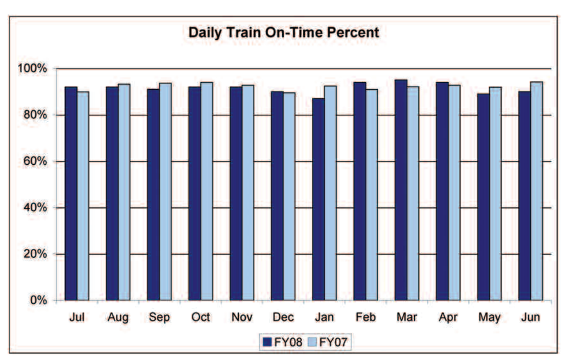
	FY08	FY07
Annual passenger trips	107,487,604	101,704,381
Average weekday trips	357,775	339,350
Average trip length	13.48	13.45
Annual passenger miles	1,448,529,163	1,368,044,840
Daily train on-time performance	91.5%	92.0%
System utilization	32.2%	31.7%
End-of-period ratios[1]		
Peak patronage	57%	57%
Off-peak patronage	43%	43%
Annual revenue car miles	66,988,477	64,329,557
Passenger accidents/million passenger trips	4.92%	4.92%
Passenger crimes/million passenger trips	10.92%	15.24%
Net passenger revenue	$ 309,456,870	$ 282,079,624
Other operating revenue	$ 32,332,481	$ 30,724,199
Total operating revenue	$ 341,789,351	$ 312,803,823
Net operating expense	$ 541,961,899	$ 489,785,916
System farebox ratio[2]		
Net pass revenue/net operating expense	59.6%	60.4%
System operating ratio[2]		
Total operating rev/total operating expense	65.8%	67.0%
Net rail passenger revenue/passenger mile	$ 0.213	$ 0.206
Rail operating cost/passenger mile	33.5¢	33.2¢
Net average rail passenger fare including FastPass	$ 2.87	$ 2.77

Notes:

1 Six hour peak period (three hours a.m. and three hours p.m.)

2 FY07 and FY08 exclude $23M extraordinary expense. Under a BART/MTC fund exchange program, MTC programs federal funds to current BART projects and BART deposits an equal amount of local funds in a Reserve Account designated for BART's future rail car replacement program.





BART BOARD OF DIRECTORS FISCAL YEAR 2008

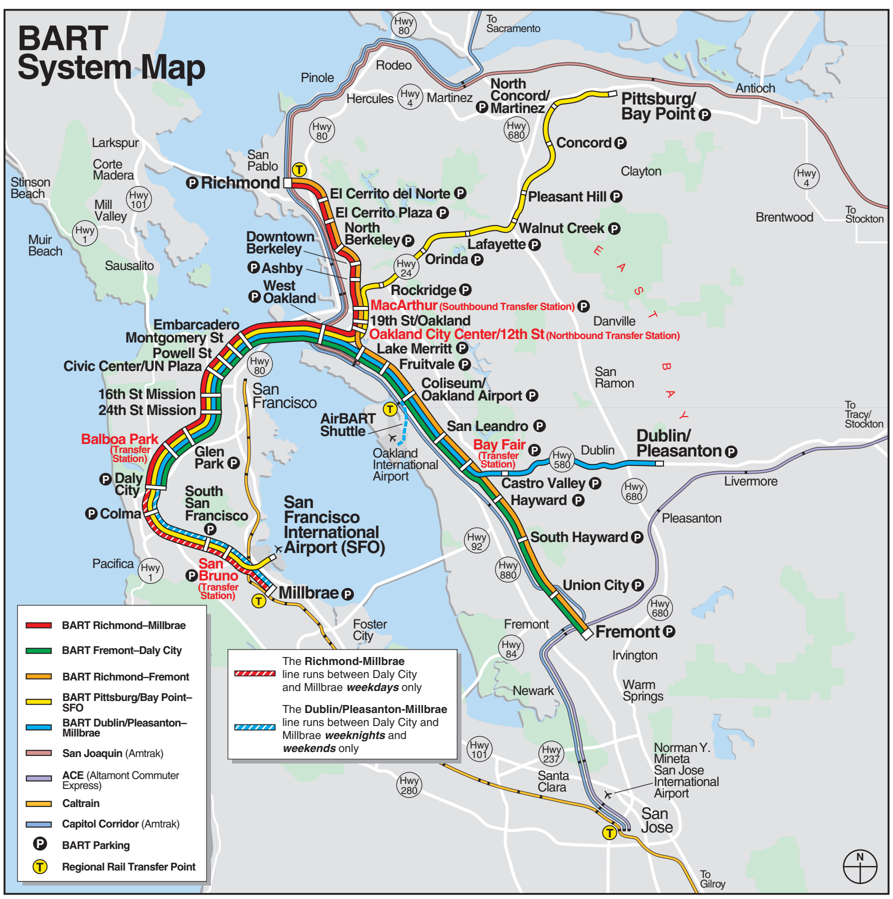
Gail Murray	President – Orinda
Thomas M. Blalock	Vice President – Fremont

MEMBERS OF THE BOARD

Gail Murray	District 1	Orinda
Joel Keller	District 2	Antioch
Bob Franklin	District 3	Berkeley
Carole Ward Allen	District 4	Oakland
Zoyd Luce	District 5	Dublin
Thomas M. Blalock	District 6	Fremont
Lynette Sweet	District 7	San Francisco
James Fang	District 8	San Francisco
Tom Radulovich	District 9	San Francisco

BOARD APPOINTED OFFICERS

Dorothy W. Dugger	General Manager
Matthew Burrows	General Counsel
Scott Schroeder	Controller/Treasurer
Ken Duron	District Secretary



- Established in 1957 by the California State Legislature.
- Authorized to plan, finance, construct, and operate a rapid transit system.
- Governed by the Board of Directors elected for four-year terms by voters in nine election districts within the counties of Alameda, Contra Costa and San Francisco.

The annual report is published by the District pursuant of Section 28770, Public Utilities Code of the State of California.